

**STATE AND CONSUMER SERVICES AGENCY
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF
OFFICE DEPOT, INC.**

**FOR COMPLIANCE WITH THE PRICING
AND COMMERCIALY USEFUL
FUNCTION PROVISIONS OF
OFFICE SUPPLIES
CONTRACT NO. 1S-06-75-55**

REPORT NO. 8177

OFFICE OF AUDIT SERVICES

JULY 2008

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT
REPORT NO. 8177

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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES
AUDITOR'S REPORT

DATE: August 28, 2008

TO: **JAMES BUTLER**, Deputy Director
Procurement Division
Department of General Services

This report presents the results of our audit of Office Depot, Inc. (Office Depot) for compliance with the pricing and commercially useful function (CUF) provisions of Contract No. 1S-06-75-55 (Contract) which was entered into to provide office supplies to the State of California and local governmental agencies. The term of the Contract is August 31, 2006 through August 30, 2008. This audit was performed at the request of the Director of the Department of General Services (DGS). The objective of our audit was to determine if Office Depot is complying with the pricing provisions of the Contract and using its Disabled Veteran Business Enterprise (DVBE) and/or small business subcontractors to perform a CUF. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

Although our audit identified a number of other areas for improvement in Office Depot's compliance with Contract pricing requirements, we noted one area of significant concern that, in our opinion, needs to be immediately addressed prior to allowing the Contract to continue in operation. Specifically, we found that Office Depot has sold a large dollar amount and quantity of products to Contract customers without the application of an approved category basket discount. As discussed on Page 10, Office Depot has added a third category of pricing that it applies to products that are not sold as core or non-core items under the Contract. In correspondence and discussions with the audit team, these items have been referred to by Office Depot as "non-contract" or "off contract" items even though the items are offered for sale within the hard copy catalog and/or online ordering system maintained under the terms of the Contract.

Our review of the terms and conditions of the Contract determined that it only provides for two pricing categories: Core items and Non-core, or category basket, items. We could not find any provision within the Contract that allows a third category of products, i.e., off contract or non-contract items, to be offered and sold to Contract users by Office Depot. This view of Contract pricing provisions was confirmed by both the DGS Procurement Division's (PD) executive management and contract acquisition and management staff. The PD conducted the Contract solicitation and is responsible for the ongoing Contract administration function.

In brief, the products priced as core items represent those products commonly purchased by the State. Prices for core items are fixed for the first two years of the contract. The non-core items represent the remaining products allowed to be sold under the contract. To determine the pricing of a non-core item, the product is placed in one of 13 category baskets, e.g., desk accessories, paper products, etc., which have an assigned discount percentage which range from 25% to 40% off of Office Depot's commercial list price.

As noted in the chart on Page 9, through February 2008, approximately \$14.2 million has been spent by Contract customers for approximately 16,000 products that were not sold as core

items or placed in one of the 13 category baskets provided in the Contract for non-core products. This amount represents approximately 35% of the total amount of \$40.7 million spent under the Contract.

It should be noted that, upon identification, we promptly brought this finding to the attention of both PD and Office Depot management during our audit fieldwork. At that time, both parties actively began discussions to block the items from future purchase and to resolve the issue of an additional discount not being provided for items included in the third category of pricing. We are pleased with the prompt action taken by both parties to begin addressing our finding and recommended actions.

Our audit also disclosed the following other issues involving Office Depot's product pricing functions and activities. Recommendations to address the following issues are presented in this report.

- Office Depot's practices are not ensuring that items which are excluded from the Contract are effectively blocked from purchase by customers. Specifically, during our sample tests, we observed numerous transactions that were for products of a type which should have been blocked from purchase under the terms of the Contract. The products included digital cameras, televisions, computer monitors, printers, virgin copy paper, cleaning supplies, trash liners, fans, bandages, vacuums, paper towels, and various food items.
- Overall, we concluded that Office Depot is accurately pricing products that have been approved by the State as core or non-core items. However, our reconciliation of item prices approved under the Contract to actual prices charged for an item disclosed a number of overcharges that are significant enough to warrant recovery by the State. These exceptions total \$34,399, which is .13% of the total of \$26,432,744 in core and non-core sales through February 2008. It should be noted that we are recommending that any undercharges not be offset against the amount owed due to the Contract providing for maximum and not minimum pricing. The total overcharges found during our audit are as follows:
 1. During the early stages of the Contract, i.e., through November 2006, a large number of transactions were noted with incorrect prices charged to Contract customers. The total overcharges for this period were \$28,306, while undercharges totaled \$18,285. In the great majority of instances, Office Depot revised its online ordering system to reflect correct pricing in November or December 2006.
 2. Beginning in early October 2007, a significant number of non-core items began being charged at a price that did not agree with the approved catalog price. We were advised by Office Depot that during the transition period to a new catalog in August 2007, it came to an agreement with the State on which of the 13 category baskets items fell within for pricing purposes. Subsequently, Office Depot inadvertently failed to upload the correct file containing all of the items. Through February 2008, the total overcharge for 317 products impacted by this issue was \$6,093, while undercharges totaled \$10,357.
- Office Depot continued to sell core items that should have been discontinued under the terms of the Contract. Specifically, Office Depot continued to sell to Contract customers 21 core items that were replaced by other items in late August 2007. The items were subsequently sold at a significantly higher per item price than what was originally charged when the item was priced as a core item. For example, Acme brand scissors were available to Contract customers at a core price of 15 cents each until PD approved their replacement by Office Depot brand scissors at the same price. Subsequently, rather than removing the item from its online ordering system, Office Depot continued to sell the Acme brand product

to Contract customers at a per item price ranging from \$2.88 to \$3.79. We determined that Contract customers were overcharged \$21,725 through February 2008 due to higher prices being charged for the 21 products that should have been discontinued in August 2007.

It should be noted that the great majority of Contract users bought the new core items upon their availability beginning in August 2007 and not the old replaced items. For the 21 core items discussed above, approximately 32,000 more of the new core items were purchased, rather than the more expensive old core items.

- Based on our sample tests, we developed concerns that Contract customers were in some instances purchasing "non-contract" items (see previous discussion of those products), instead of purchasing significantly less expensive equivalent core items. Although the procuring agency is responsible and accountable for its purchasing decisions, we noted two issues with Office Depot's online ordering system as discussed below that may have contributed to some of the apparent uneconomical decisions.

1. At the time of our audit testing on May 16, 2008, Office Depot's online ordering system was not ensuring that core items, labeled online as "Best Value" in red and yellow, appeared as the first products listed when key word searches were performed by customers. In fact, we found all best value designations on the first page for sampled products in only 3 of 27 key word searches.

Subsequent to our tests and an Assembly Select Committee on Procurement hearing on the Office Depot Contract held on May 15, 2008 which specifically discussed the intuitiveness of the online ordering site, Office Depot changed the search paradigm to promote the more prominent display of best value core items and steer users to those items. We are pleased with the prompt action taken by Office Depot to improve its product search process.

2. Office Depot's key word search process is not effective for core items that do not have a picture of the item shown in the hard copy catalog and the online ordering system. Specifically, our review found that products which had the words "not shown" by the item in the hard copy catalog did not show up in key word searches made on the online ordering system if a picture of the item was also not shown on that system. The "not shown" reference refers to a picture of the item not being published in the catalog. The only way an item that had the "not shown" reference in the catalog with a picture also not being shown online could be located in the online ordering system was by putting in the exact product number for the item when conducting a search.

During our review we identified 129 products that had a picture of the item not shown in the current hard copy catalog. Subsequently, we tested 25 of the items and found that 13 also did not have a picture shown in the online catalog. Therefore, those items could not be located through a key word search.

Regarding compliance with the CUF provisions of the Contract, based on our field visits to each of the nine consortium members and Epylon Corporation the online system provider, interviews of PD and Office Depot contract management staff and review of relevant documentation, we concluded that the consortium members were performing the distinct work elements provided for in the Contract. Specifically, we found that Office Depot has operated in a good faith manner in implementing the CUF solution proposed in the Contract involving the use of small businesses and DVBES to operate as resellers of its products. We also concluded that PD performed an adequate CUF assessment prior to Contract award.

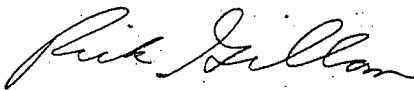
To assist in ensuring that our findings are adequately and effectively addressed, we suggest that PD obtain a written commitment from Office Depot that appropriate actions will be taken to improve their internal control systems to ensure Contract compliance. While our final report has not been presented to Office Depot for review and comment, during our audit fieldwork we kept its Contract management staff fully aware of our primary areas of concern. Consistently, Office Depot has either taken prompt action to address our concerns or indicated a commitment to promptly resolve any outstanding issues with the State.

As discussed in the Conclusion section of this report, we also observed a number of issues that should be addressed related to PD's acquisition and contract management functions. In brief, we have concerns that PD does not require the completion of a specific worksheet or other document to capture the results of its CUF assessment during the acquisition process. Further, we have significant concerns that PD's contract administration practices did not disclose in a timely manner the widespread selling by Office Depot of third category priced products. Prior to the issuance of our report, PD provided us with draft CUF and Contract Management Plan documents and requested our consulting assistance in evaluating the adequacy of those documents. We appreciate the prompt actions taken by PD to begin addressing our concerns.

Your response to each of our recommendations as well as our evaluation of the response is included in this report.

We greatly appreciated the cooperation and assistance provided by the various personnel contacted during our audit including staff of Office Depot, Epylon Corporation, Office Depot's DVBE and small business subcontractors and the PD.

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Andy Won, Management Auditor, at (916) 376-5052.



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OFFICE DEPOT, INC.

CONTRACT COMPLIANCE AUDIT

INTRODUCTION

In early March 2008, the Director of the Department of General Services (DGS) requested that the DGS Office of Audit Services (OAS) conduct an audit of Office Depot, Inc.'s (Office Depot) compliance with various provisions of its contract with the State to provide office supplies to State of California and local governmental agencies. Specifically, after concerns were raised about contract activities by a number of small business contractors, the Director requested that OAS audit Office Depot's compliance with contract provisions governing the pricing of products and the use of Disabled Veteran Business Enterprise (DVBE) and/or small business subcontractors to provide a commercially useful function (CUF).

BACKGROUND

On April 4, 2006, the DGS Procurement Division (PD) issued a Request for Proposal (RFP) for Statewide Office Supplies, RFP DGS-55206. The solicitation was issued to elicit proposals from firms qualified to provide office supplies at contracted pricing and/or discounts to State and local governmental agencies in accordance with the requirements of the RFP. The RFP was conducted using a strategic sourcing process. The PD defines strategic sourcing as an approach where the buyer (State of California) analyzes what it is buying, what the conditions are, and who can supply those goods or services. Then the buyer uses that information, plus innovative contracting techniques, to find the best values available in the marketplace. Strategic sourcing is used to purchase goods and services that are bought in large quantities, generally by multiple agencies, where careful analysis shows it can be successful.

Ultimately, three firms submitted final proposals in response to the RFP, with one of the firms deemed non-compliant during the RFP evaluation process. On July 21, 2006, the final two firms' sealed cost envelopes were opened and evaluated and scored by a three person PD evaluation team. The scoring criteria provided for a maximum of 1,040 points comprised of a Technical and Business Score of 240 points and a Cost Score of 800 points. The Technical and Business Score included various criteria for the award of points, including points for meeting DVBE and small business goals. The Cost Score was primarily based on the pricing submitted by the firms for items identified as core and non-core products. Further, points were earned based on additional volume discounts offered by the firms.

As part of the cost evaluation, a core item pricing list containing 361 products was evaluated. The core items represented those products commonly purchased by the State, based on historical data. Prices for core items are fixed for the first two years of the contract. For non-core items, pricing for 123 products was evaluated. The non-core items represented a sample of the remaining spend in office supplies by the State, based on recent historical data. The non-core category was broken down by 13 category baskets, with discounts to be proposed for each category. In brief, non-core

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product prices are published in a hard copy catalog that can be updated no sooner than 300 days after the start of the contract.

The RFP process also included an evaluation that a CUF was going to be performed by proposed disabled veteran business enterprise (DVBE) and small business subcontractors. Per Government Code Section 14837 and Military Veterans Code Section 999, a certified small business or DVBE subcontractor is deemed to perform a CUF if the business does all of the following:

- Is responsible for the execution of a distinct element of the work of the contract.
- Carries out its obligation by actually performing, managing, or supervising the work involved.
- Performs work that is normal for its business services and functions.
- Is not further subcontracting a portion of the work that is greater than that expected to be subcontracted by normal industry practices.

A contractor, subcontractor, or supplier will not be considered to perform a CUF if the contractor's, subcontractor's, or supplier's role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of small business or DVBE participation.

Office Depot proposed and the PD accepted a contract solution that involved the use of a consortium of nine DVBEs and/or small businesses to perform distinct elements of the contract. According to Office Depot's proposal, it would manage the contract, wholesale the items to the consortium members, provide for logistics in both distribution and order entry and maintain hard copy and online catalogs of approved pricing. Consortium members function as authorized value added resellers to the State and are assigned accounts identified to a specific geographic area. Furthermore, consortium members take possession of the goods they resell and are invoiced by Office Depot for the wholesale value of the goods. Office Depot also proposed partnering with Epylon Corporation (Epylon) for the e-commerce online ordering system required by the Contract. Epylon, a certified small business, will provide and manage the online system, which allows Contract users to place orders with one of the nine members of the consortium. While connected to Epylon's website, buyers will punch-out to Office Depot's website where contract pricing is posted. For further information on CUF definitions and processes and the results of our review of those issues, see Page 21 of this report.

The total evaluated score for the top ranked firm, Office Depot, was 1,034.12, while the other firm's score was 935.75. Subsequently, Office Depot was awarded Contract No. 1S-06-75-55 (Contract) to provide office supplies to the State of California and local governmental agencies. The term of the Contract is August 31, 2006 through August 30, 2008. The State has the unilateral right to exercise options to extend the Contract for three additional one year periods.

The Contract actually was implemented in mid-September 2006 when pilot training and testing began by Office Depot and its subcontractors. On October 11, 2006, the first general training of Contract users was held and, subsequently, Office Depot began

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widely being used to purchase office supplies by State and local governmental agencies. The first Contract transactions were processed on September 20, 2006.

As of February 2008, the Contract provided for approximately 500 core items and 9,700 non-core items to be offered by Office Depot. The Contract also provides for an additional discount when sales exceed a predetermined quarterly volume level and a 1% discount for purchases made online through the Epylon e-commerce ordering site.

As shown in Appendix I, Contract users are receiving a significant discount from the prices shown in Office Depot's catalog that are available to its general business customers, referred to as "your price" by Office Depot. For example, Office Depot charges the State only 4 cents for box of 12 binder clips (Product No. 808857), while the "your price" for that item is shown as 99 cents per box; a savings of 95 cents per box. Our review of 20 commonly purchased core and non-core items in January and February 2008 disclosed that Contract customers saved approximately \$200,000 from the "your prices" shown in Office Depot's hard copy catalog of products offered under the Contract.

For further information on product pricing and the results of our review of pricing issues, see Page 9 of this report. As shown on the chart on Page 9, approximately \$40.7 million in products have been purchased by Contract users.

OBJECTIVE AND SCOPE

The objective of our audit was to determine if Office Depot is complying with the pricing provisions of the Contract and using its DVBE and/or small business subcontractors to perform a CUF. See Page No. 9 for information on the Contract's pricing requirements. See Page No. 21 for information on the State's requirements for determining if a certified DVBE or small business is performing a CUF.

For pricing compliance, the scope of our audit primarily involved a review of transactions processed since the Contract's inception on August 31, 2006 through February 2008. During our audit, we found that the first Contract transactions were processed on September 20, 2006, with general customer usage beginning in mid-October 2006. For CUF compliance, the scope of our audit involved an evaluation of current activities performed by the nine consortium members.

METHODOLOGY

To determine if Office Depot and its subcontractors were complying with Contract provisions, we performed numerous audit procedures. These procedures included the:

- review of Contract terms and conditions and user instructions;
- review of acquisition and contract management files;
- review of CUF statutory and policy requirements;

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- review of recent audits/reviews of Office Depot's performance under office supply contracts with the State's of Georgia, Nebraska and North Carolina;
- analysis of data shown on monthly usage reports submitted by Office Depot;
- interviews of PD's contract management and acquisition personnel;
- interviews of Office Depot's contract management staff;
- interviews of Legislative staff and other interested parties to discuss their concerns with contract compliance. We also monitored a Assembly Select Committee on Procurement hearing held on May 15, 2008 that examined the Office Depot contract;
- verification of the certification status of the nine consortium members and current business lines listed with the DGS Office of Small Business and DVBE Certification;
- review of the current websites of the nine consortium members to verify the types of goods and services offered by the firms;
- conduct of field visits to each of the nine consortium members and Epylon, the firm that provided and maintains the Contract's e-commerce solution;
- interviews of the executive management of the nine consortium members and Epylon;
- examination of materials used to provide training to user agencies;
- detailed validation tests of an audit of contract pricing performed by Epylon. This included the independent validation of databases used in Epylon's audit. See Page 16 for further information on this audit;
- tests of transactions to verify that invoiced costs agreed to approved core and non-core prices contained in the hard copy Contract catalogs and/or Contract amendments;
- examination of the intuitiveness of the online ordering system; and,
- performance of other tests as deemed necessary.

OFFICE DEPOT, INC. CONTRACT COMPLIANCE AUDIT

FINDINGS AND RECOMMENDATIONS

The following sections present our detailed findings and recommendations developed based on our audit of Office Depot, Inc.'s (Office Depot) compliance with contract provisions governing the pricing of products and the use of small business and Disabled Veteran Business Enterprise subcontractors to provide a commercially useful function. This information was developed during our fieldwork that was primarily conducted during the months of March through July 2008.

Our findings and recommendations are presented in two sections: Product Pricing and Commercially Useful Function. The recommendations are provided to aid the Procurement Division (PD) in administering Contract No. 1S-06-75-55 (Contract) which was entered into with Office Depot to provide office supplies to the State of California and local governmental agencies.

PRODUCT PRICING

This section presents information on areas of noncompliance found during our review of Office Depot's product pricing operations. Specifically, we found that Office Depot has sold a large dollar amount and quantity of products to Contract customers without the application of an approved category basket discount. In our opinion, this finding is of such high significance that it needs to be immediately addressed prior to allowing the Contract to continue in operation.

The following sections also discuss areas of noncompliance with Contract provisions governing the: (1) blocking of items from purchase that are excluded from the Contract; (2) accurate pricing of core and non-core products; (3) selling of discontinued core products; and, (4) maintenance of an online ordering system that adequately and effectively flags the availability of core items.

The following chart shows the sales activity by price category through February 2008. The first transaction processed under the contract was on September 20, 2006.

Price Category	Number of Unique SKUs ¹	Number of Transactions	Quantity of Items Sold	Total Sales
Core	556	139,881	2,257,401	\$5,121,673.36
Non-Core	9,793	330,683	2,078,083	\$21,311,070.59
Third Category ²	16,537	160,000	1,105,885	\$14,222,967.24
Totals	26,886	630,564	5,441,369	\$40,655,711.19

Note: Information obtained from Epylon Corporation. Total sales amount is prior to the application of an additional 1% discount for online orders.

1) A SKU number is assigned by Office Depot to each unique product available for purchase.

2) Referred to as "non-contract" or "off contract" sales by Office Depot.

Products Sold Without a Category Basket Discount

Office Depot has sold a large amount of products to Contract customers without the application of an additional category basket discount to the price charged for those items. Specifically, we found that Office Depot has added a third category of pricing that it applies to products that are not sold as core or non-core items under the Contract. In correspondence and discussions with the audit team, these items have been referred to by Office Depot as "non-contract" or "off contract" items even though the items are offered for sale within the hard copy catalog and/or online contract ordering system maintained under the terms of the Contract.

Our review of the terms and conditions of the Contract determined that it only provides for two pricing categories: Core items and Non-core, or category basket, items. We could not find any provision within the Contract that allows a third category of products, i.e., off contract or non-contract items, to be offered and sold to Contract users by Office Depot. This view of Contract pricing provisions was confirmed by both PD's executive management and contract acquisition and management staff.

The Request for Proposal (RFP DGS-55206), which was incorporated as part of the final contract, clearly specified that cost would be the primary evaluation criterion for the award of the RFP and that this cost would be determined off of pricing information in only two categories: Core and Non-core items. The Contract provides that unless a product is designated as blocked, e.g. office technology, televisions, digital cameras, etc., all items offered as available under the Contract within the hard copy or online State of California Office Supply Catalog must be identified as a core or non-core item and appropriate discounts provided to customers by Office Depot.

The products priced as core items represent those products commonly purchased by the State. Prices for core items are fixed for the first two years of the Contract. The non-core items represent the remaining products allowed to be sold under the Contract. To determine the pricing of a non-core item, the product is placed in one of 13 category baskets, e.g., desk accessories, paper products, etc., which have an assigned discount percentage which range from 25% to 40% off of the commercial list price, referred to as "your price" by Office Depot. See Appendix II for Section 6 of the RFP which governs Contract pricing and Appendix III which explains how Office Depot priced its products in response to the RFP including an explanation of "your price". Information on the thirteen non-core category baskets and discount percentages evaluated during the RFP process is contained in Appendix IV of this report.

As noted in the chart on Page 9, through February 2008, approximately \$14.2 million has been spent by Contract customers for approximately 16,000 products that were not sold as core items or placed in one of the 13 category baskets provided in the Contract for non-core products (See Appendix V for a schedule of monthly sales). This amount represents approximately 35% of the total amount of \$40.7 million spent under the Contract. Although as later discussed in this report we found that items which should have been blocked from purchase under the terms of the Contract make-up a portion of the \$14.2 million spent within this third category of pricing, the great majority of items purchased appear to represent items that could have been placed in one of the non-core category baskets. See Appendix VI for a listing of the 418 products sold within the third category of pricing which had sales totaling in excess of \$5,000 through February 2008. This schedule shows that most items were of a type that could have been placed in one of the existing non-core category baskets which provide for the application of discounts ranging from 25% to 40%. In fact, 152 of the products with total

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Findings and Recommendations, Cont'd

sales of \$3,956,731 were ultimately placed in a category basket and non-core pricing provided beginning in August 2007 when a new Contract catalog was issued for use by Contract customers.

During our audit fieldwork we had a number of discussions, and in some instances correspondence, with both Office Depot and PD staff pertaining to the third category of pricing that was applied to a large number of items sold under the Contract. In brief, Office Depot made the following representations as to why it believes those items are allowed to be sold under the Contract:

- Office Depot is unaware of any provision in the Contract that restricts it from offering and selling the items.
- From the inception of the Contract, Office Depot discussed with PD items that were outside the scope of the thirteen category basket discounts, such as items available from wholesalers or special items added by manufacturers, which were being purchased by California agencies. There was never any communication with Office Depot that these items could not be sold but only that agency purchasers were to use diligence in purchasing any non-contract items.
- On or about June or July 2006, Office Depot informed PD that the catalog which was used for the bid would be updated in the normal course of business within weeks of the bid submission. Office Depot requested that it be permitted to update this catalog, which PD denied based on the view that a substituted catalog would not meet the requirements of the RFP. Office Depot advised PD that this may result in agencies purchasing non-contract items because many new products were added to the updated catalog and would be viewed online by agencies. The old catalog also had a number of product categories, such as copy paper, which had list prices that had substantially increased since the publishing of the catalog and, therefore, could not be offered at a further full category basket discount.
- On or about October 2006, pursuant to the contract, Office Depot provided lists of agreed upon core and non-core items to potential contract customers. Further, Office Depot and its small business partners provided training to agencies, including training regarding core and non-core items. The State's ordering site also identifies core items with a "Best Value" marker.
- In November and December 2006, Office Depot discussed with PD the possibility of adding a 14th market basket with a flat discount to address non-contract items, but this was not implemented. Office Depot also discussed with PD the possibility of Office Depot and its small business partners separating the non-contract purchases from the contract purchases when receiving orders from purchasing agencies. Ultimately, it was agreed that this would be too cumbersome for the agencies and for the small business partners helping to facilitate the contract.
- Office Depot tracked non-contract spend in the monthly Usage Reports provided to PD, identifying those sales as "online" rather than "BSD 13R", which was the initial Contract catalog for non-core items.

As part of our review, we also requested that Office Depot provide any correspondence or other written documents supporting its position that the pricing of a third category of items was discussed with and allowed by PD. Subsequently, Office Depot was only able to provide limited

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Findings and Recommendations, Cont'd

support for its position. Specifically, we were provided with an agenda dated December 28, 2006 for a weekly meeting between PD contracting officials and Office Depot which references an action item (Action Item 29) that was noted as outstanding since October 26, 2006 (See Appendix VII). The action item references non-core items that do not fall into a category basket and refers to a list of those items that is to be provided by Office Depot's Regional Sales Director. Upon receipt of that list, PD was to perform an analysis and begin negotiations on actions to be taken, such as blocking those items from being purchased. We were also provided with an e-mail dated October 16, 2006 from Office Depot's contract manager to PD contract officials which briefly discusses the need for wholesale program item discounts.

PD officials have advised that they do not agree with the position expressed by Office Depot. Specifically, PD has never considered this Contract to include a third category of items, i.e., the off contract or non-contract items category referred to by Office Depot. The PD maintains that per Contract pricing provisions (See Appendix II) the only items allowed to be sold are to be classified as core or non-core and provided the approved core price or non-core category basket discount. In addition, PD's primary contracting officials (three employees) involved in either the award of the Contract and/or the ongoing Contract management function denied being aware that Office Depot was selling non-core items under the Contract without the application of a category basket discount. Two of these employees were on the RFP Evaluation Team for the Contract and attended some of the periodic contract activity meetings held with Office Depot during the early stages of Contract implementation. The remaining employee, who was also on the RFP Evaluation Team, serves as the contract administrator for the State and has been PD's representative in overseeing Contract activities.

The three PD employees all agreed that the issue of additional non-core products which had not been placed into a category basket had been discussed by Office Depot during periodic Contract activity meetings. However, they also stated that Office Depot never provided a list of the applicable items. Therefore, the issue was never resolved even though it appeared on every meeting agenda. We confirmed that this action item, Action Item 29, which first appeared on a written agenda for a November 3, 2006 meeting, had still not been shown as addressed as of the written agenda for a May 24, 2007 conference call between Office Depot and PD. It is our understanding from discussions with both Office Depot and PD staff that both parties were busy with other Contract issues and never had extensive discussions of this subject after the early stages of the Contract. Therefore, the issue was never fully resolved.

Although there is some disagreement between Office Depot and PD as to the knowledge of PD contract officials of the selling of items without a category basket discount, this condition does not alleviate that Office Depot could not identify Contract language which allows the selling of those items to Contract customers. The selling of items in a pricing category that was not evaluated as part of the office supplies RFP and incorporated into the resulting Contract is not allowable in our opinion.

In correspondence dated June 27, 2008, Office Depot indicated that, although the items sold in the third category of pricing were not placed in category baskets and applicable Contract discounts applied, it did work to ensure that the sale of the items benefited customers. Office Depot represented that, if taken in total, the items were discounted at an average of 16% off of the "your price" and 53% off list price, and the items were also counted toward the State's achievement of the 2% volume discount. Since the items were sold through the Contract procurement system, the count of those sales toward the achievement of the 2% discount upon

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the reaching of volume sales milestones would be expected and was validated by us. The extensive and complex data to support Office Depot's representation of the providing of a 16% discount off of "your price" was not provided to us until the late stages of our audit. Therefore, we did not verify its accuracy prior to the completion of our audit. However, if accurate, this amount is still under the range 25% to 40% off of "your price" provided for the thirteen category baskets identified in the contract.

As shown in Appendix VIII, we performed an analysis of a sample of 40 regularly purchased products sold within the third category of pricing to determine the effect of category basket discounts not being applied to non-core type products. The items were apparently priced at amounts charged to Office Depot's general business customers. Our sample tests included 20 products which were converted by Office Depot to a non-core category basket in August 2007 when a new contract catalog was issued for use by customers. Our sample tests also included 20 products that were priced as third category items for the complete period covered by our audit. Of these 20 products, 19 were on a list of 216 products that had total sales of approximately \$900,000 and, according to Office Depot, were inadvertently omitted from the database files used to create the category baskets. Of the 40 sampled products, 31 had sales totaling in excess of \$5,000 through February 2008 (See Appendix VI).

After placing each of the 40 products into one of the thirteen category baskets, we applied the applicable discount percentage to the "your price" product price shown in the hard copy catalog. We then compared the resulting price per audit to the actual price charged to Contract customers for each transaction processed for the applicable item. We found that the pricing model used by Office Depot resulted in 35 of the products being charged at a higher price due to the lack of application of a category basket discount. In total, the State was charged approximately \$300,000 more for the 40 sampled products due to Office Depot using its third category pricing model, instead of using the non-core pricing model provided in the Contract.

It should be noted that we do have significant concerns that PD's contract administration practices did not disclose in a timely manner the widespread selling by Office Depot of third category priced products. A cursory review of either the online ordering website or the monthly usage reports would have disclosed the existence of this condition. Specifically, a comparison of products offered online to the actual core and non-core products approved to be offered by PD would have readily identified products that were not within these two categories. Further, the usage reports contain a column that shows the discount percentage applied to each non-core item. This column was not completed for the third category priced items, which should have raised concerns as to the pricing of Contract products. The contract administrator indicated that she did not actively review the usage reports for pricing issues.

The contract administrator also indicated that she only became aware of items offered without a category basket after February 2008. At that time, a public records request resulted in her reviewing the usage reports and it became apparent to her that items were being sold without a category basket discount. The need for improvement in PD's contract administration activities is discussed in the Conclusion section of this report.

It should also be noted that in the late stages of our audit we received a listing from Office Depot that categorized the various product items sold within the previously discussed \$14.2 million pricing category. This listing included a notation that \$10.3 million of the sales were made online for products that were not in the Contract catalog. We were not able to verify the

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accuracy of this listing prior to the completion of our audit fieldwork. Therefore, the listing is not further discussed in this report.

Recommendations

1. Require Office Depot to either block the purchase of third category priced items by Contract customers or place the items into one of the thirteen category baskets provided in the Contract.
2. Pursue the recovery of an additional discount from Office Depot for items sold to Contract customers that were not discounted in accordance with the non-core pricing model provided in the Contract.

Blocked Items

Office Depot's practices are not ensuring that items which are excluded from the Contract are effectively blocked from purchase by customers. Specifically, in reviewing and sampling transactions within the database comprising the \$14.2 million in non-category basket product sales discussed above, we observed numerous transactions that were for products of a type which should have been blocked from purchase under the terms of the Contract. The products included digital cameras, televisions, computer monitors, printers, virgin copy paper, cleaning supplies, trash liners, fans, bandages, vacuums, paper towels, and various food items. For example, we noted the following purchase activity during our sample tests: (1) 68 transactions for digital cameras resulting in 122 items being purchased with a total value of \$33,308; (2) 21 transactions for televisions resulting in 120 items being purchased with a total value of \$91,172; (3) 9 transactions for computer monitors resulting in 46 items being purchased with a total value of \$10,656; and, (4) many transactions for virgin copy paper (contains 0% recycled paper) that totaled \$375,000. Appendix IX contains a listing of 72 unique products that were provided to Office Depot for its review and evaluation during our audit fieldwork which are representative of the types of items noted during our tests. The virgin copy paper transactions are listed in Appendix VI.

Section 1 of RFP DGS-55206 and the User Instructions for the Contract identify the following items that were excluded from the bid and designated as to be blocked from sale under the contract:

1. Janitorial, safety, and first aid supplies (plastic bags, mops, buckets, brooms, cleaners, vacuums, electrical supplies, fans, paper products, tools, flashlights, batteries, heaters, etc.);
2. Break room appliances (refrigerators, microwaves, ovens, coffeemakers, disposable paper products, and food items);
3. Office technology (printers, monitors, copiers, radios, etc.);
4. Computer peripherals;
5. Televisions, digital cameras, cash registers;
6. Two way radios; and,
7. Virgin copy paper.

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In June 27, 2008 correspondence in response to our concerns with its procedures for blocking items from purchase, Office Depot indicated that it periodically received requests from the State to block certain items that were on the restricted item list of the RFP and, subsequently, blocked those items as soon as possible after the State's request. Office Depot started to block the items by category, however, sometimes the category was too broad such that core and non-core items would be blocked as well. In that case, Office Depot blocked the requested items individually instead of by category, to ensure that State purchasers could continue to purchase non-core and core items. Occasionally, because Office Depot was blocking items individually instead of on a category basis, an agency may have purchased a particular item during the time that the blocking process was occurring.

In discussing this issue with PD's contract manager, we determined that she agreed with Office Depot that, in some instances, category restrictions were too broad and had unintended consequences. Further, she agreed that she did actively advise Office Depot of new individual products that needed to be blocked. However, she also indicated that this did not alleviate Office Depot from its responsibility for blocking items that were identified in the Contract as excluded from the bid.

As shown in Appendix IX, Office Depot's procedures ensured that many of the 72 items provided for its review and evaluation by us were ultimately placed in restricted status. Specifically, by mid-July 2008, 40 of 61 items (66%) that were still available for sale online had been placed in restricted status and, therefore, were no longer available for purchase by contract customers. Although this result supports Office Depot's position that it does block restricted items upon identification, we have concerns that 21 items (34%) purchased prior to March 2008 remained unblocked as of July 2008. It should be noted that Office Depot promptly placed the remaining 21 items in restricted status upon their identification.

It should be also noted that virgin copy paper products are no longer allowed to be purchased under the Contract. Although there is some disagreement between PD and Office Depot as to the circumstances that led to these items being allowed to be purchased prior to their blockage, virgin copy paper products were blocked from purchase beginning in late May 2007.

In addition, we believe that the issue of blocking items based on a product category classification needs to be revisited. As shown in Appendix X, our search of the online ordering system by product category disclosed that while some categories have all items in restricted status, others have very few items restricted from customer purchase. For example, only 4 of 39 digital cameras and 3 of 57 computer monitors were restricted from purchase per our review of the online ordering system on July 21, 2008, while all of the coffee makers and small appliances were appropriately in restricted status.

Because Office Depot's product numbering system does not contain an identifier for products that should be blocked, we could not determine the value of products that were erroneously allowed to be purchased under the Contract. However, our review of the 418 products that had sales totaling in excess of \$5,000 through February 2008 (See Appendix VI) found that items sold which should have been restricted totaled \$461,435 (5.7%), primarily virgin copy paper, of the total third category sales of \$8,125,289.

As previously discussed, in the late stages of our audit, we received a listing from Office Depot that categorized the various product items sold within the previously discussed \$14.2 million

pricing category. This listing included categories that appeared to show total sales of items which should have been blocked under the terms of the contract, such as virgin copy paper and office technology items. We were not able to verify the accuracy of this listing prior to the completion of our audit fieldwork. Therefore, the listing is not further discussed in this report.

It should be noted that we believe that State agencies which purchased the excluded Contract items are ultimately responsible and accountable for those purchasing decisions. However, Office Depot also has a contractual responsibility for blocking the items from purchase, which is the primary control activity developed by DGS to prevent State agencies from ordering items that conflict with State policy.

Recommendation

3. Require Office Depot to take additional actions to ensure that items which are excluded from the Contract are effectively blocked from purchase by customers. This process should include the blocking of products by category, where feasible.

Core and Non-core Product Pricing

Overall, we concluded that Office Depot is accurately pricing products that have been approved by the State as core or non-core items. However, our reconciliation of item prices approved under the Contract to actual prices charged for an item disclosed a number of overcharges that are significant enough to warrant recovery by the State. These exceptions total \$34,399 as discussed below, which is .13% of the total of \$26,432,744 in core and non-core sales through February 2008.

To determine the accuracy of Office Depot's pricing practices, we primarily relied on information provided by Epylon Corporation (Epylon), the provider of the e-commerce solution used under the Contract. On May 5, 2008, Epylon published the results of its audit of Contract pricing in a report entitled *Invoice Pricing vs. Approved Contract Prices for Core and Market Basket Items as Authorized by State of California Contract IS-06-75-55*. In brief, Epylon represented that its program audit compared approved core and category basket prices for all of the items under Contract to actual prices charged to the State before application of a discount of 1% for orders made online from program inception through February 2008.

Since the scope of our audit included an examination of the accuracy of contract pricing, the results of Epylon's audit was of significant interest to us. Based on our request, in May 2008, Epylon readily shared the various databases used to perform its audit. Subsequently, we performed tests to validate those databases and ensure accurate pricing.

Except for some errors in the handling of returns/credits and partial delivery orders and the need for us to make revisions based on timing issues related to when a price was actually approved for use under the Contract, we found that Epylon's methodology for comparing approved prices to actual prices charged was accurately performed. The errors noted during our review in the original database related to the handling of returns/credits and partial deliveries were corrected by Epylon in early July, which was subsequent to the completion of most of our tests. However, the new data was used in calculating any overcharged amounts.

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According to Epylon, its study looked at 109,380 invoices and found both overcharges (\$67,587) and undercharges (\$115,246). We found that most of the over and undercharges identified in Epylon's report involved timing issues only and not the charging of incorrect prices to Contract customers. For example, Epylon identified approximately \$20,000 in overcharges and \$62,000 in undercharges occurring during the period of early August 2007 to early September 2007 in its original analysis. In brief, based on our analysis of price history data compared to actual amounts invoiced, we concluded that the great majority of the over and undercharges during that period resulted from timing differences and were not incorrectly charged transactions. We found that Epylon assumed in its analysis that new non-core pricing (usually a higher price) was effective for all applicable products on August 8, 2008, when the price changes were actually made at various times during the complete month of August. This condition resulted in numerous transactions being inaccurately identified as over or undercharged. Further, in its analysis, Epylon did not take into account a 2% volume discount that was effective in August and September, which led to all applicable transactions inaccurately being shown as undercharged.

It should be noted that we are not being critical of the efforts made by Epylon to audit the price history of the Contract. After relatively minor adjustments, Epylon's efforts resulted in a very useful comparison of approved prices to actual prices invoiced to Contract customers. We greatly appreciated Epylon's sharing its audit database with us and its ready cooperation in assisting us in performing our audit work related to verifying the accuracy of Contract pricing.

In performing our sample tests, we analyzed Epylon's price history/invoice database at various specific price points, such as when a 2% volume discount was provided on transactions beginning in April 2007. The primary period that we observed a significant number of transactions invoiced at an incorrect core or non-core price that was not impacted by timing issues occurred during the early stages of the contract. Specifically, using Epylon's audit database, we determined that a large number of the transactions it identified with pricing errors were incurred during the period of September 20, 2006 through November 30, 2006. September 20, 2006 is the first date orders were processed under the contract. The total overcharges for this period were \$28,306, while undercharges totaled \$18,285. In the great majority of instances, Office Depot revised its online ordering system to reflect correct pricing in November or December 2006. Therefore, the pricing errors did not continue to future months.

To verify Epylon's calculations, we tested a sample of 78 of the unique products identified by Epylon as incorrectly priced and determined that 75 (96%) of them were accurately reflected as an over or undercharge in Epylon's audit analysis. Therefore, we concluded that the data for this period provided by Epylon was accurate and could be used by us to determine incorrect pricing. Consequently, we believe that the total overcharge amount of \$28,306 should be recovered from Office Depot. The undercharges should not be offset against the amount owed due to the Contract providing for maximum and not minimum pricing. See Appendix XI for a summary of the results of our testing of pricing for the period ended November 30, 2006, and Appendix XII for 22 examples of per item over and undercharges.

During our review we provided Office Depot with the results of our audit testing. At that time, Office Depot indicated agreement with our finding and stated that prices were incorrect for a number of reasons including the original placement of some items in basket categories that were later revised at the State's request and other errors made due to the start-up of such a major procurement system. Office Depot stated that statewide implementation did not begin until September 26, 2006. Prior to that date, Office Depot and the State were engaged in the

pre-implementation pilot phase of the contract. During the pilot phase and throughout the first couple of months of statewide implementation, adjustments were being made to the systems, products and pricing, and the market basket categories. These adjustments were anticipated and even requested by the DGS.

In addition, in the early stages of our audit, we became aware of a significant number of non-core items that beginning in early October 2007 were charged at a price that did not agree with the approved catalog price. Ultimately, we were advised by Office Depot that its research disclosed that over 300 non-core items were inadvertently uploaded for sale with the wrong category basket discount. During the transition period to a new catalog in August 2007, Office Depot came to an agreement with the State on which of the 13 category baskets items fell within for pricing purposes. Subsequently, Office Depot inadvertently failed to upload the correct file containing all of the items. Instead, in early October 2007, it uploaded a previous file used during the negotiation period and not the final file, which led to items not being placed in the agreed upon basket. For example, numerous products were priced at a 25% discount rate due to the uploading of the wrong file, instead of the correct 30% basket rate resulting in the products being overcharged. We also noted products charged at a rate that resulted in contract customers being undercharged, such as when products were priced within a 35% category basket instead of the correct 30% basket rate.

Based on our request, Office Depot provided an analysis of the effect of its loading the incorrect category basket rates. After a number of audit adjustments to the data provided by Office Depot, we concluded that 317 products were impacted by this condition. Through February 2008, the total overcharge due to this issue was \$6,093, while undercharges totaled \$10,357. See Appendix XIII for examples of products that had incorrect charges due to this issue. It should be noted that as previously indicated we are recommending that the undercharges not be offset against the amount owed due to the Contract providing for maximum and not minimum pricing.

Recommendations

4. Recover from Office Depot a total of \$34,399 for overcharges due to the incorrect pricing of products.
5. Require Office Depot to correct its pricing database to ensure that the 317 non-core products are placed in the correct category basket.

Selling Discontinued Core Items

We found that Office Depot continued to sell core items that should have been discontinued under the terms of the Contract. Specifically, Office Depot continued to sell to Contract customers 21 core items that were replaced by other items in late August 2007 based on an amendment to the Contract. The items were subsequently sold at a significantly higher per item price than what was originally charged when the item was priced as a core item. For example, Acme brand scissors (Product No. 983197) were available to Contract customers at a core price of 15 cents each until PD approved their replacement by Office Depot brand scissors (Product No. 375667) at the same price. Subsequently, rather than removing the item from its online ordering system, Office Depot continued to sell the Acme brand product to Contract

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customers at a per item price ranging from \$2.88 to \$3.79. The item was priced within the previously discussed third category of product pricing.

As shown in Appendix XIV, we determined that Contract customers were overcharged \$21,725 through February 2008 due to higher prices being charged for the 21 products that should have been discontinued in August 2007. Since the State agencies (at least 43) purchasing the products obviously benefited from their use, we allowed the sales made by Office Depot. However, we only allowed the original core pricing for the items in calculating amounts allowable per audit. For example, for the previously discussed scissors, we identified 286 items as purchased after the scissors should have been discontinued and not available for purchase. At 15 cents each, the total cost per audit was \$42.90, instead of the \$1,003.37 actual cost paid to Office Depot which results in a total overcharge of \$960.47 for that item.

Although the procuring agency is responsible and accountable for its decision to purchase a replaced core item, rather than a significantly less expensive new core item, Office Depot is responsible for implementing effective procedures for blocking those items from purchase. Contract provision, Attachment 2, Section 5.4.3 provides that if any item on the core list is being discontinued; Office Depot will propose an alternative offering which can be added to the core by mutual agreement. Discontinued items will be deleted from online offerings.

In brief, when presented with this finding during our audit fieldwork, Office Depot took immediate action to block the old core items from future purchase. Office Depot also indicated that it did not originally block the replaced core products because it did not foresee agencies continuing to attempt to purchase the items due to the actions it took to communicate the discontinuing of the products. The replacement of the items was communicated to buyers through the revision of the Contract catalogs to no longer present those products as core items. The items were also blocked by Office Depot on old purchasing lists used by buyers forcing them to research new products and prices. Further, the Best Value marker would only come up on the online ordering system for the new item and not for the old item.

It should be noted that the great majority of Contract users bought the new core items upon their availability beginning in August 2007 and not the old replaced items. For the 21 core items discussed above, approximately 32,000 more of the new core items were purchased, rather than the more expensive old core items (See Appendix XV).

Recommendations

6. Reemphasize to Office Depot its responsibility for blocking discontinued core items from purchase.
7. Recover from Office Depot a total of \$21,725 due to higher prices being charged for the 21 products that should have been discontinued in August 2007.

Online Ordering System

Based on our sample tests, we developed concerns that Contract customers were in some instances purchasing "non-contract" items (see previous section of this report), instead of purchasing significantly less expensive equivalent core items. Although the procuring agency is

responsible and accountable for its purchasing decisions, we noted two areas for improvement with Office Depot's online ordering system as discussed below that may have contributed to some of the apparent uneconomical decisions.

- **Best Value Designation** – at the time of our audit testing on May 16, 2008, Office Depot's online ordering system was not ensuring that core items, labeled online as "Best Value" in red and yellow, appeared as the first products listed when key word searches were performed by customers. In fact, we found all best value designations on the first page for sampled products in only 3 of 27 key word searches. While most of the other searches disclosed best value designations on the first page of the search and the top of each subsequent page which at least allowed the customer to readily search for core items, in four instances, the first page of the search did not have any best value product listed as available. This condition required customers to search multiple pages to locate any core items that may be available. For example, our product search for "hanging folders" did not list any best value items on the first page of the product sort. Instead, the three best value products were listed on page two of the search results. Another example is the result of our product search for "mechanical pencils" where the first best value item was not listed until page six of the search results. Attachment C of the Contract requires that core items be visibly flagged and appear as the first line of items on the online system. The best value marker was developed to flag those items.

In discussing this issue with Office Depot, we were advised that, if a large number of results were found for a specific search, product results were listed by "relevance" and not best value. According to Office Depot, a relevance search yields items that more closely match the user's search, but depending on the search terms entered by the user, those items may not necessarily be core items. The initial search paradigm was implemented by Office Depot in an effort to closely match exactly the key word(s) entered in a product search.

Subsequent to our tests and an Assembly Select Committee on Procurement hearing on the Office Depot contract held on May 15, 2008 which specifically discussed the intuitiveness of the online ordering site, Office Depot changed the search paradigm to promote the more prominent display of best value core items and steer users to those items. Specifically, Office Depot changed the default sort to "best value" from "relevance". We verified the new system on June 10, 2008. We are pleased with the prompt action taken by Office Depot to improve its product search process.

- **Core Item Search Results** – we determined that Office Depot's key word search process was not effective for core items that did not have a picture of the item shown in the hard copy catalog and the online ordering system. Specifically, our review found that products which had the words "not shown" by the item in the hard copy catalog did not show up in key word searches made on the online ordering system if a picture of the item was also not shown on that system. The "not shown" reference refers to a picture of the item not being published in the catalog. The only way an item that had the "not shown" reference in the catalog with a picture also not being shown online could be located in the online ordering system was by putting in the exact product number (SKU number) for the item when conducting a search.

As an example, we found that the core items for single pack tape flags advertised in the catalog did not come up when we searched in the online system for the specific color

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desired and the word "flags". The only way we were able to identify the specific item as available for purchase was by entering the exact SKU number. For tape flags, this condition may have contributed to Contract users purchasing two pack tape flags in red, green, purple or orange under "non-contract" SKU numbers, which did come-up in the "flags" key word search, significantly more often than the less expensive core item single pack tape flags in those colors. We noted approximately 2,025 transactions for the two pack flags, while the single pack flag core items only had 191 transactions. The core price for the single pack flags was 36 cents, while the two pack flags non-contract prices charged to customers varied from \$4.70 to \$4.73 (See Appendix VIII).

During our review we identified 129 products that did not have a picture of the item shown in the current hard copy catalog. Subsequently, we tested 25 of the items and found that 13 also did not have a picture shown in the online catalog. Therefore, those items could not be located through a key word search. See Appendix XVI for the 13 core products that were not found in the online catalog based on a key word search.

We provided Office Depot with eight examples of core items that were not located online through the use of a key word search. In response, Office Depot indicated that the items did not come-up because they were proprietary, meaning the items were offered by Office Depot to the State of California only. Per Office Depot, proprietary items do not appear in regular key word searches because they are not generally available to other customers. As previously stated, Attachment C of the Contract requires that core items be visibly flagged and appear as the first line of items on the on-line system. We are not aware of any exception for proprietary items.

Recommendation

8. Require Office Depot to maintain an online ordering system which ensures that all core products, including proprietary items, are identifiable through the use of common key word searches.

COMMERCIALLY USEFUL FUNCTION

This section presents the results of our review of compliance with the commercially useful function (CUF) provisions of the Contract. As noted below, we found that Office Depot's subcontractors are complying with the CUF provisions by performing the distinct work elements provided for in the Contract. It should be noted that we are aware of the controversy within the small business community as to if this Contract is in the best interest of the State due to its limiting of the State's office supply business to Office Depot's nine subcontractors, instead of the approximately 270 other certified small business or Disabled Veteran Business Enterprise (DVBE) contractors that identify office supplies as a line of business with the State. While the Contract does allow buyers to use other certified small businesses and DVBEs if certain conditions are met, in practicality, the great majority of the State's office supply purchases are made using the Office Depot office supplies contract. Our audit did not include a review of this issue which would require an examination and evaluation of the various procurement options available to the State.

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In brief, the State requires that all small businesses and DVBEs perform a CUF in any contract they enter into with the State (Government Code Section 14837 and Military Veterans Code Section 999). The purpose of the CUF requirement is to prevent certified small businesses or DVBEs from acting as a "pass through" or "front", exchanging the benefits of certification for payment from a non-certified business. When subcontracting to small business or DVBE subcontractors, the intent is for the subcontractor to provide goods or services required for the performance of the contract rather than artificial or incidental participation that provides an "appearance" of participation to meet the socio-economic objectives of these programs. A certified small business or DVBE subcontractor is deemed to perform a CUF if the business does all of the following:

- Is responsible for the execution of a distinct element of the work of the contract.
- Carries out its obligation by actually performing, managing, or supervising the work involved.
- Performs work that is normal for its business services and functions.
- Is not further subcontracting a portion of the work that is greater than that expected to be subcontracted by normal industry practices.

A contractor, subcontractor, or supplier will not be considered to perform a CUF if the contractor's, subcontractor's, or supplier's role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of small business or DVBE participation.

The determination of CUF compliance is made prior to award of the contract. In brief, the State agency buyer must evaluate all four of the requirements noted above prior to deeming a bidder compliant with CUF requirements. For the office supplies solicitation, based on information and declarations submitted by Office Depot, PD determined that all CUF requirements had been met and awarded maximum points for small business and DVBE participation in the contract based on 98% small business and 34% DVBE subcontractor participation rates proposed by Office Depot.

In brief, in its bidder declaration to RFP DGS-55206, Office Depot defined both its role and the nine DVBEs' and/or small businesses' (consortium members) role in the contract. According to Office Depot, it manages the contract, wholesales the items to the consortium members, and provides for logistics in both distribution and order entry. Consortium members function as authorized value added resellers to the State and are assigned accounts identified to a specific geographic area. Furthermore, consortium members take possession of the goods they resell and are invoiced by Office Depot for the wholesale value of the goods. Office Depot has also partnered with Epylon Corporation (Epylon) for the e-commerce online ordering system required by the Contract. Epylon, a certified small business, provides and manages the online system, which allows Contract users to place orders with one of the nine members of the consortium. While connected to Epylon's website, buyers punch-out to Office Depot's website where contract pricing is posted. See Appendix XVII for the various Contract declarations and information submitted by Office Depot defining its roles and responsibilities under the Contract and how the consortium members and e-commerce solution satisfy CUF requirements.

The following chart shows the sales activity by consortium member through February 2008. The first transaction processed under the contract was on September 20, 2006.

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Consortium Member	SB/DVBE Status	Total Sales
The Primary Source	SB	\$5,872,013.70
Cufis Technologies, Inc.	SB	\$4,854,114.97
The Very Last Word	SB	\$2,869,759.13
Micro League, Inc.	SB	\$2,457,063.62
Waldeck's Office Supplies	SB	\$2,740,170.37
The Martini Group, Inc.	SB	\$2,833,848.28
DVBE Tech, Inc.	DVBE/SB	\$8,531,383.54
Hoffman Technologies, Inc.	DVBE/SB	\$7,031,112.49
SLM Contract Furniture, Inc.	DVBE/SB	\$3,466,245.09
Total		\$40,655,711.19
Note: Information obtained from Epylon Corporation. Total sales amount is prior to the application of an additional 1% discount for online orders.		

In addition, we noted that Office Depot's monthly usage reports show approximately \$45,000 as being sold at its retail stores. Under the terms of the Contract, these are the only purchases not considered to be made by a DVBE and/or small business. Therefore, the actual sales made by DVBEs and/or small businesses under the Contract is at an overall level of 99.89%.

Although in a later section we briefly discuss PD's rationale for concluding that CUF requirements were met at the time of contract award, the scope of our audit primarily focused on verifying that Office Depot's subcontractors were currently performing, managing, or supervising the work specified in the Contract. As discussed in the following section, we concluded that the small businesses and DVBEs were providing the contracted services.

Performance of Contracted Work

Based on our field visits to each of the nine consortium members and Epylon, interviews of PD and Office Depot contract management staff and review of relevant documentation, we concluded that the consortium members were performing the distinct work elements provided for in the Contract. Specifically, we found that Office Depot has operated in a good faith manner in implementing the CUF solution proposed in the Contract involving the use of small businesses and DVBEs to operate as resellers of its products to State customers. In coming to this conclusion, we focused on if the consortium members were providing the services identified in its bidder declaration submittal and subsequent clarification dated July 31, 2006, which were incorporated into the terms and conditions of the Contract (See Appendix XVII, Pages 4 and 9 of 13).

The State's understanding of the responsibilities of the nine DVBE and/or small business subcontractors is summarized on PD's website within the Contract's User Instructions as follows:

- Sales
- Customer Services

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- Onsite visits
- Account set-up
- Follow-up support
- Administrative support
- Initial issues resolution
- Training of agency buyers
- Training of receivers
- Product training and forums
- Billing and invoicing the State
- Arrangements for special delivery requirements
- Other various functions agreed upon to meet the agency's needs
- Work with Office Depot's management team to fulfill State requirements

During our field visits to each of the nine consortium members and Epylon, we conducted detailed interviews of management personnel and observed each entity's facilities. Further, we requested any supporting documents related to the conduct of Contract activities, such as those involving customer support services. In general, the consortium members did not maintain an audit trail of their day-to-day services provided under the Contract. However, a number of the businesses were able to provide anecdotal evidence of the types of activities they perform on an ongoing basis.

In addition, Office Depot provided us with a copy of the form agreement that it advised was used to contract with the consortium members. The agreement spells-out that the consortium member will be used to assist in fulfilling the Contract. The agreement defines Office Depot's responsibilities, including providing the infrastructure reasonably necessary to allow the consortium member to meet its obligation to fulfill State requirements. In brief, this includes providing the products, as well as necessary systems, which are needed in order to manage and report to the State as required by the Contract. The agreement also defines the consortium members responsibilities related to providing sales staff, support services and customer training. The members are also required to use Epylon's e-commerce services as part of the agreement.

We also verified that the consortium members take title to the goods and are responsible for paying the sales taxes associated with the sale of those goods. The consortium member takes title to the goods from the point merchandise is picked and shipped by Office Depot to the point it is delivered to the Contract customer. It should be noted that there have been concerns expressed by a number of parties that the consortium members are not actually taking possession of the goods as stated in the bidder declaration (See Appendix XVII, Page 4 of 13). As stated on the bottom of the second page of the July 31, 2006 clarification letter that was requested by the PD and incorporated into the Contract (Appendix XVII, Page 10 of 13), Office Depot "picks, packages and delivers the product to the State customer the next business day." Therefore, Office Depot clarified and PD fully understood that the consortium members did not actually take physical possession of the property.

It should also be noted that our legal counsel advised that physical possession of the goods is not necessary to have constructive possession of the property. In brief, constructive possession is defined as not literally possessing the property, but having the right or the recognized authority to possess the property. Further, per the California Uniform Commercial Code section 2401, legal counsel advised that title to goods passes from the seller to the buyer

OFFICE DEPOT, INC.
Findings and Recommendations, Cont'd

in any manner explicitly agreed to upon by the parties. In its bidder declaration, Office Depot stated that it will wholesale the items to the consortium members. Broadly construed, this statement evinces Office Depot's intent that it will transfer title of the goods to the members in exchange for the wholesale price of those goods.

Based on the results of our audit procedures, it was readily apparent that the subcontractors were performing a CUF. We found that the consortium members were independent businesses performing the services mandated in the Contract. To varying degrees, the businesses independently perform the previously referenced duties with their primary efforts focused on sales, customer service, issues resolution, customer training and outstanding invoice collection activities. The consortium members and Epsilon function as the "face" of the office supplies contract to customers, while Office Depot maintains the pricing of products on its website and fills orders and arranges the delivery of products to the State customer. The consortium members were also not using subcontractors to perform Contract functions.

CUF Determination at Contract Award

As previously noted, the scope of our audit focused on verifying that Office Depot's subcontractors were actually performing, managing, or supervising the work provided for in the Contract. However, we did perform a limited review of PD's processes used to determine CUF compliance prior to the award of the Contract. According to State procurement requirements, four tests must have been passed prior to considering Office Depot's proposal as CUF compliant. These tests are described in the following table:

For Each Certified Supplier:	
Test	Question
1	Is the supplier responsible for the execution of a distinct element of the resulting State contract?
2	Will the supplier actually be performing, managing, or supervising an element of the resulting State contract?
3	Will the supplier be performing work that is normal for its business, services and function?
4	Is there any further subcontracting that is greater than that expected to be subcontracted by normal industry practices?

Although at the time of our review PD's policies did not require the completion of a specific worksheet or other document to capture the results of its CUF assessment, based on our interviews with acquisition staff and review of the procurement file, we concluded that an adequate CUF assessment was performed prior to Contract award. In brief, PD appropriately relied on Office Depot's Bidder Declaration and clarifications to answer Test Nos. 1, 2 and 4 in determining CUF compliance (See Appendix XVII). These documents clearly indicate that the small businesses and DVBES, in their role as resellers, would be directly responsible for executing distinct and necessary tasks required for Office Depot to deliver office supplies to the State of California and participating governmental agencies, which is the purpose of the Contract. Further, the subcontractors were shown as responsible for directly performing, managing and supervising a portion of the Contract with their own resources, including employees, and were not shown as further subcontracting those activities.

OFFICE DEPOT, INC.**Findings and Recommendations, Cont'd**

For Test No. 3, PD's acquisition staff performed the step recommended by State procurement policies regarding verifying that certified small businesses and DVBES are performing work that is normal for its business, services and function. Specifically, acquisition staff verified on the DGS Office of Small Business and DVBE Certification (OSDC) website that the proposed subcontractors were certified DVBES and/or small businesses. Further, staff verified that the work proposed in the contract was within each firm's line of business as reflected on the website. The OSDC is the State's certifying agency that administers the DVBE and Small Business Certification Programs. As part of this process, the firms classify their business lines into Standard Industrial Classifications (SIC). For example, the SIC code for office supplies is 5112.

We verified that the procurement file contained copies of the certification webpage for each of the proposed subcontractors. In each case, we determined that the businesses were certified DVBES and/or small businesses. Further, we noted that the SIC codes shown for the firms were for office supplies or closely related products. We determined that four of the firms had the SIC code for office supplies: The Primary Source; The Very Last Word; Waldeck's Office Supply; and, The Martini Group, Inc. Further, the remaining firms indicated that they sold computer equipment or software (Cufis Technologies, Inc., Micro League, Inc., DVBE Tech, Inc. and Hoffman Technologies, Inc.) or furniture and office equipment (SLM Contract Furniture, Inc.). It is our understanding that PD allowed the firms that did not have the SIC code listed for office supplies because the product lines that were listed, such as computer technology items, were closely related to office supply products. Since the Contract's non-core category baskets include product categories such as computer accessories, office furniture, and small office equipment (See Appendix IV), we agree with the PD's decision to allow the various SIC codes as consistent with the work to be performed under the Contract.

It should be noted that we also reviewed the current websites of the nine consortium members to verify the types of goods and services offered by the firms. The only concern noted was with The Martini Group, Inc. which according to its website, and later confirmed with its executive management, was primarily a spend management firm and not a seller of commodities at the time of Contract award. The Martini Group's website provides that it brings together Fortune 1000 companies to leverage their purchasing power on specific commodities such as office supplies, print and stationary, packaging and more. To participate in the Contract, in May 2006, The Martini Group, Inc. obtained a small business certification through the OSDC, which included a SIC code for office supplies, and obtained a Sales and Use Tax Permit from the Board of Equalization. Although this condition raises concerns because of the apparent lack of the firm's experience in operating as a reseller, State statute and policy does not prevent an existing firm from entering into a new line of business to allow its participation in a State contract. Therefore, we are not questioning the original decision that The Martini Group, Inc. met CUF requirements.

CONCLUSION

The issues presented in this report should be addressed to assist in ensuring Office Depot's compliance with the pricing provisions of the Contract. It should be noted that when advised of areas for improvement during our audit fieldwork, Office Depot either took prompt action to address our concerns or indicated a commitment to promptly resolve any outstanding issues with the State.

Although the focus of our audit was on Office Depot's compliance with Contract provisions, we observed a number of issues that should be addressed related to PD's acquisition and contract management functions. In brief, we have concerns that PD does not require the completion of a specific worksheet or other document to capture the results of its CUF assessment during the acquisition process. Further, as discussed on Page 13, we have significant concerns that PD's contract administration practices did not disclose in a timely manner the widespread selling by Office Depot of third category priced products.

During our review we discussed with PD's purchasing management the need for additional practices which ensure that CUF decisions are adequately documented and that the contract administration process includes the development of Contract Management Plans that clearly document the responsibilities of the contract administrator prior to the start of a contract. Further, we discussed the need for additional training to be provided to staff, staff performance to be adequately supervised and the contract file to be maintained in a manner which ensures that key activities and decisions are fully documented. Prior to the completion of our fieldwork, PD provided us with draft CUF and Contract Management Plan documents and requested our consulting assistance in evaluating the adequacy of those documents. We appreciate the prompt actions taken by PD to address our concerns.

STATE AND CONSUMER SERVICES AGENCY

DEPARTMENT OF GENERAL SERVICES

OFFICE OF AUDIT SERVICES

**AUDIT OF
OFFICE DEPOT, INC.
REPORT NO. 8177**

APPENDIX I THROUGH APPENDIX XVII

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX I

SCHEDULE OF DOLLARS SAVED FOR SELECTED PRODUCTS
PURCHASED IN JANUARY AND FEBRUARY 2008¹

Item Number	Product SKU Number	Core or Non-Core Item	Product Description	Quantity of Items Sold (a)	Contract Price Per Item (b)	Your Price Per Item (c)	Extended Price (d) (a)(b)	Extended Your Price (e) (a)(c)	Savings (f) (e-d)	Category Basket Discount
*1	932749	Core	PAPER,FLR,11X85,CR100CTRECY	687.00	\$0.14	\$2.59	\$96.18	\$1,779.33	\$1,683.15	N/A
*2	808857	Core	CLIP,BINDER,SMALL,12/BX	2,255.00	\$0.04	\$0.99	\$90.20	\$2,232.45	\$2,142.25	N/A
*3	840215	Core	PAPER,ADD,225X150,1PK,WHITE	2,208.00	\$0.06	\$0.59	\$132.48	\$1,302.72	\$1,170.24	N/A
*4	156322	Core	ECONO WEIGHT NONSTICK TOP LOAD	113.00	\$0.53 - \$0.54	\$5.79	\$60.14	\$654.27	\$594.13	N/A
*5	909309	Core	CLIP,BINDER,MINI,1/4IN,12BOX	2,781.00	\$0.04	\$0.59	\$111.24	\$1,640.79	\$1,529.55	N/A
*6	348037	Non-Core	PAPER,COPY,85X11,104 BRT,BOND	9,912.00	\$27.75 - \$28.32	\$37.76	\$278,067.60	\$374,277.12	\$96,209.52	25%
*7	940320	Non-Core	FILE,STRGE,ECOLOGIC,12X10X15	2,559.00	\$2.29 - \$2.33	\$3.59	5,955.91	\$9,186.81	\$3,230.90	35%
*8	206503	Non-Core	ERASER,CAP,RED,12/PK	2,686.00	\$0.57 - \$0.58	\$0.89	\$1,557.71	\$2,390.54	\$832.83	35%
*9	937102	Non-Core	FILE POCKET,LTR,35EXP,RED	360.00	\$1.37 - \$1.39	\$1.99	\$495.20	\$716.40	\$221.20	30%
*10	940650	Non-Core	PAPER,CPY,RCY,85X11,20,104BR	3,958.00	\$30.82 - \$31.45	\$41.94	\$123,286.51	\$165,998.52	\$42,712.01	25%
**11	166702	Core	TAPE,CORRECTION,MONO	4,364.00	\$0.34	\$3.59	\$1,483.76	\$15,666.76	\$14,183.00	N/A
**12	329576	Core	DUSTER,AIR,10OZ	2,831.00	\$0.80	\$9.99	\$2,264.80	\$28,281.69	\$26,016.89	N/A
**13	320960	Core	STAPLE,1/4,SF1,15-25SHT,5M/BX	2,338.00	\$0.10	\$1.29	\$233.80	\$3,016.02	\$2,782.22	N/A
**14	172395	Core	TAPE,TRANSPARENT,3M,3/4X1296	3563.00	\$0.30	\$1.99	\$1,068.90	\$7,090.37	\$6,021.47	N/A
**15	452409	Core	FLAGS,TAPE,IN DISP,2PK,YELLOW	1,854.00	\$0.71	\$4.19	\$1,316.34	\$7,768.26	\$6,451.92	N/A
**16	429175	Non-Core	CLIP,PAPER,JUMBO,SMOOTH,100BX	4,709.00	\$0.65	\$0.89	\$3,060.85	\$4,191.01	\$1,130.16	25%
**17	444997	Non-Core	BOX,CORRUGATED,12X12X12	365.00	\$1.37	\$1.99	\$500.05	\$726.35	\$226.30	30%
**18	360669	Non-Core	INDEX,ERASABLE,5-TAB,SET,WHT	1,533.00	\$0.88	\$1.49	\$1,349.04	\$2,284.17	\$935.13	40%
**19	825182	Non-Core	CLIP,BINDER,SM,3/4IN,144/PK	136.00	\$4.77	\$6.49	\$648.72	\$882.64	\$233.92	25%
**20	910216	Non-Core	GLUE-STICK,BULK PK,1OZ	1,440.00	\$1.09	\$1.59	\$1,569.60	\$2,289.60	\$720.00	30%
TOTAL				50,652.00			\$423,349.03	\$632,375.82	\$209,026.79	

¹ Dollars saved is defined as the difference between the Contract prices paid by the State and the prices shown in Office Depot's catalog that are charged to its general business customers, referred to as "your price" by Office Depot.

* Items selected from the top thirty items purchased in the January 2008 Monthly Line Item Spend Report. Totals reflect the quantity of each item sold for January 2008.

** Items selected from the top thirty items purchased in the February 2008 Monthly Line Item Spend Report. Totals reflect the quantity of each item sold for February 2008.

APPENDIX I

CONTRACT NO. 1S-06-75-55 (EXTRACTS)

RFP DGS - 55206
Section 6- Pricing

6 PRICING

6.1 Introduction

Cost is the primary evaluation criterion for the award of this RFP. Evaluation in this area will be based on the lowest estimated net total cost to the State, as calculated according to the methodology outlined in Section 7, Evaluation and Selection. All proposed costs for all line items and any proposed discounts must include the cost of any services required in the Administrative and Technical Sections of this RFP.

Final pricing will be submitted in a CD-ROM format in a sealed envelope as part as your final proposal, refer to Section 3.2.3 and 3.2.5, Format and Content. Please ensure that you are entering two decimal place for percentages and two decimal places for dollars as indicated in the instructions and examples for the pricing worksheets. The number that appears in the yellow input column, which is submitted on your pricing CD as part of your final proposal will be used for evaluation purposes.

The State's intention is to structure the pricing format in order to facilitate a straightforward comparison among all bidders. Consequently, the State requires that each bidder's quote be in the format outlined below. Alternative pricing structures will not be considered. Bidders are advised that failure to comply with the instructions listed below, submit incomplete offers or offers in a different format than the one requested may result in the rejection of their proposals on the basis of being non-responsive.

6.2 Price Structure

The pricing information is categorized under two (2) main categories: Core and Non-core items.

Core Items:

The core item list provides line item detail on those products commonly purchased by the State, based on recent historical data. The pricing proposal for this core list will only be considered compliant if the bidder provides pricing for all 377 core line items. A blank cell or a zero (\$0.00) value in a line item unit price will be interpreted as a noncompliant pricing proposal and the bidder deemed nonresponsive.

Non-Core Items:

The non-core items list represents a sample of the remaining spend in Office Supplies by the State, based on recent historical data. This category has been broken down by 13 Product Basket Descriptions. The pricing proposal for this non-core list will only be considered compliant if the bidder provides pricing for all 130 non-core line items. A blank cell or a zero (\$0.00) value in a line item unit price will be interpreted as an incomplete pricing proposal and the bidder deemed non responsive.

Please Note: Worksheet 2 was inadvertently numbered incorrectly, Item #'s 71 through 80 do not exist.

During the term of the contract, the State may need to move items from either the non-core list or from the catalog to the core list based on high usage. This will be accomplished via an amendment.

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RFP DGS - 55206

Section 6 - Pricing

6.3 Pricing Instructions

Exhibit 8.13, Price worksheet, contains the different bid sheets that the bidders shall use to enter pricing. Please follow these instructions to submit your pricing proposal to the State:

1. Download the price worksheet, Exhibit 8.13 from the California State's Contractors Register to your hard drive.
2. Rename the file as "(Enter your company name) Office Supplies Pricing worksheets. xls" on your hard drive.
3. Once you have finalized entering your pricing, save the file onto a CD-ROM(s) and submit four copies as identified in Section 3.

6.4 Pricing Worksheets

Please enter data into Yellow cells only. Modifying any other cell in any of the worksheets may disqualify the bidder from the entire RFP.

Three worksheets are included in the pricing worksheets.

1. Worksheet 1 - Core Item list;
2. Worksheet 2 - Non-Core Category Baskets/non-core basket item list;
3. Worksheet 3 - Other Discounts.

6.4.1 Worksheet 1

Completion of Core Item list worksheet:

For Items 1-377 contained in this worksheet, please input the following for each item:

- Your Catalog Item Number and page number, or indicate "online" **or** "**supplement**" for the item that you are offering as a match or substitute for the item described. *If referencing an item as "online", provide your on-line commercially available website.*
- Manufacturer or Brand of the item for which Catalog List Price is provided;
- Your Catalog List Price (in US\$);
- The net price that you are offering to the State for that line item. (This price to include your price reductions from your catalog)

Notes:

Item 276 must comply with specification 8115-06BS-001, Exhibit 8.22.

Items 277-342 cannot be substituted with remanufactured cartridges.

Prices provided for core items shall be fixed for the first two years of the contract. Justification for price changes after two years must be supplied by the supplier in a written request which must be approved in writing by the State. Such Justification shall include substantiated information to support the proposed escalation (e.g., manufacturer's price list, significant changes in published market indicators for the industry, certified raw material cost data, and any other substantiating information as requested by the State).

Upon receipt of such notice the State reserves the right to either:

1. Accept escalation as competitive with the general market price at that time, effective no sooner than 30 days after written approval from the State; or
2. Negotiate proposed price escalation. The State will notify, in writing, the contractor or its desire to negotiate; or
3. Cancel any un-purchased balance of the contract without prejudice.

6.4.2 Worksheet 2

A. Non-Core Category Baskets:

For Product Baskets 1-13 contained in this worksheet, please input the following for each basket:

- Your catalog name and date/edition;

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Section 6- Pricing

- The discount off catalog list price that you are offering for all the non-core basket items (in %).

Discounts that are provided here are required to be applicable to all items purchased by the State, except those listed in Worksheet 1 for core items.

For evaluation of the proposals, the discounts provided in the baskets will be applied to the Catalog List item prices provided for Basket Items 1-140 of this worksheet.

B. Completion of Non-Core Basket Items:

For Items 1-140 contained in this worksheet, please input the following for each item:

- Your Catalog Item Number and page number, or indicate "online" or **"supplement"** for the item that you are offering as a match or substitute for the item described. ***If referencing an item as "online", provide your on-line commercially available website.***
- for the item that you are offering as a match or substitute for the item described;
- Manufacturer or Brand of the item for which catalog list price is provided.
- Your catalog list price (in US \$).

For evaluation of the prices, the discounts provided for in the non-core products baskets will be applied to the Catalog List Prices provided for in the non-core basket Items 1-140.

Bidder must submit with their proposal the current version of their commercially available catalog that contains catalog list prices.

No sooner than 300 days after the start date of the contract, or 300 days after the effective date wherein any price change was granted, the Contractor may petition to have the latest commercially available catalogs become the new basis of prices. Only one change to catalog prices shall be allowed within twelve (12) month period after the start date of the contract. Any item(s) offered by the Contractor to the State that are not in the commercially available catalogs must be included in a supplement to the catalogs. All discounts as proposed shall be applied to these additional items. An updated supplement shall be provided to the State on a quarterly basis to reflect additions made to the catalogs through the contract year. All items sold to the State are subject to the appropriate category basket discount. Additions shall be reviewed and approved by the contract manager prior to inclusion to the catalogs. New items and their catalog list prices added to the supplement will become part of the catalogs and adhere to the same timeline updating prices as the original catalogs and supplement. **All discounts for the non-core category baskets, except for those items listed as core, will remain fixed for the entire term of the contract.**

6.4.3 Worksheet 3

Other Discounts:

Use this worksheet to provide other discounts that you will offer to the State.

1. Volume Discounts - Volume discounts offers bidders the opportunity to provide additional discounts to the State for exceeding 5.50 million in quarterly spend. Provide the discount percentage that applies when State quarterly spend volume is at least 5% greater (5.77 million); 10% greater (6.05 million), 15% greater (6.32 million), and 20% greater (6.60 million) than 2005 spend.

Based on the total State spend by quarter, the corresponding percentage discount will be applied to all orders placed during the following quarter.

2. On-line ordering discount - On-line discounts offers bidders the opportunity to provide additional discounts to the State for all orders placed on-line. Based on historical data,

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3. 43% of all orders placed, were placed utilizing the contractor's on-line ordering system. Provide the additional discount percentage that will be applied at the subtotal level for each order.
4. CAL-Card payment discounts – CAL-Card method of payments offers bidders the opportunity to provide additional discounts to the State for all orders paid via the State's CAL-Card. Based on historical data, 48% of all orders placed were paid by CAL-Card. Provide the additional discount percentage that will be applied at the subtotal level for each order.
Note: All discounts must be received by the State at the time of order.

6.4.5 Important worksheet details

1. The use of any manufacturers' names/part numbers, trade names, brand names, information, item numbers, and/or catalog numbers listed in a specification are **descriptive, not restrictive**. Bidder's products of comparable quality and performance will be considered. Bidders offering other than the referenced brand and/or manufacturer names are to note their proposed brand name, proposed model, proposed description, supplier list price and State of California price. Upon request from the State, the bidder shall demonstrate comparability, including appropriate catalog material, literature, specifications, test data, etc. Where different sizes exist for a particular item and no size is listed, prices provided must apply to all sizes of the item. The State shall determine in its sole discretion whether a product is acceptable as an equivalent. Items 277-342 in the core list, worksheet 1, cannot be substituted with remanufactured cartridges.
2. A sample line item is shown on each worksheet to indicate how to complete the information (example line item is color-coded in orange).
3. The quantities shown are an estimate of the anticipated contract purchase pattern. Actual purchases may vary from this pattern. This quantity is being used for the purpose of award evaluation and the State will not guarantee that this quantity will be purchased. The quantities shown represent the State's past purchases for one year.
4. Any prices submitted for items shall contain no alterations whatsoever from those which are commercially offered by the manufacturer. Federal GSA prices shall not be accepted as MSRPs. Different discounts off the MSRP may be offered for each category baskets. Prices must be provided in U.S. dollars to two (2) decimal places (1/100th of a dollar).
5. Catalog List Prices are to be those listed in the current version of the bidder's commercially available catalogs.
6. The catalogs provided shall consist of both a hard copy commercially available catalog and a publicly accessible on-line catalog and must contain a full range of office supply products in all categories. A minimum of 80% of the bidders' proposed products from the core and non-core worksheets must appear in either catalog.
7. After contract award all items offered from the core and non-core worksheets by the contractor that are not in the catalogs must be included as a supplement to the catalogs.
8. For non-core basket items - In the case of a discrepancy between the bidder's submitted worksheet catalog list price and the bidder's actual commercially available catalog list price, the actual commercially available catalog list price will prevail for evaluation of the proposal.

ATTACHMENT 3

Agreement # 1S-06-75-55

Important Notice – Priced Files

Office Depot is referencing and using the 'Your Price' column in our January through June 2006 catalog #BSD13R-P in place of the 'List Price' for both the 'Core' item list and the 'Category Basket' line items. The 'Your Price' column reflects already greatly discounted prices given to general business customer and meets the requirements of 5.4.2b; It is our wish to be consistent and clear in taking all of our discounts from the 'Your Price' column as our established commercially available catalog price.

On the 'Core List' the cost in the 'Net Price to State per Unit' column represents the State's cost per line item at the unit of measure required by the State in this RFP, based off of the 'Your Price' column in the catalog, online, custom or as a supplemental item!

- Based on the number of RFP lines, Office Depot was able to provide 93.95 percent of the RFP products using the BSD13 hard catalog and online catalog.
- We were able provide 84.13 percent of the total products offered with the BSD13 hard catalog and online catalog at www.officedepot.com.

The same is true for the 'Non-Core Category Basket' price file. The State's cost for each line item is represented at the unit of measure required by the State, based off the 'Your Price' column in the catalog, online, custom or as a supplemental item!

- We were able provide 80.31 percent of the total products offered with the BSD13 hard catalog and online catalog at www.officedepot.com.

Our goal is to provide the State an accurate price file to allow the State to achieve an accurate, easy and straight forward analysis of our product and priced file!

Pricing on the public website / online catalog (our national online catalog) (www.officedepot.com) can and do change without notice frequently. Therefore, the web prices quoted may not be the same as stated on the price file at the time of your review. We will honor our net price to the State or which ever is lower at the time of the award.

Manufacture List prices are shown in the catalog for your reference.

Thank you

ATTACHMENT 3

RFP 55026 - OFFICE SUPPLIES WORKSHEET 2 - NON-CORE CATEGORY BASKETS

Agreement # 1S-06-75-55
EXHIBIT 13

NON-CORE CATEGORY BASKET ITEMS TOTAL: 2:09:07.942

Product Basket	Product Name and Description	Unit Price	Quantity	Discount	Net Price
1	DESK ACCESSORIES				
2	DESK ACCESSORIES				
3	DESK ACCESSORIES				
4	COMPUTER ACCESSORIES				
5	FILE FOLDERS / FILING SUPPLIES				
6	SMALL OFFICE EQUIPMENT				
7	AUDIO / VISUAL SUPPLIES				
8	BINDERS / BINDER SUPPLIES				
9	WRITING INSTRUMENTS				
10	PAPER				
11	PAPER PRODUCTS				
12	TONER / PRINTING SUPPLIES				
13	STAMP / STAMP SUPPLIES				

SKET ITEMS - TO BE USED FOR EVALUATING ABOVE DISCOUNTS

Item #	Product Name and Description	Unit Price	Quantity	Discount	Net Price	Manufacturer	Catalog Number	Page Number	Line Item Price for Evaluation	Total Extended Dollar Value for Evaluation
1	DESK ACCESSORIES									
2	DESK ACCESSORIES									
3	DESK ACCESSORIES									
4	DESK ACCESSORIES									
5	DESK ACCESSORIES									
6	DESK ACCESSORIES									
7	DESK ACCESSORIES									
8	DESK ACCESSORIES									
9	DESK ACCESSORIES									
10	DESK ACCESSORIES									
11	CALENDARS									
12	CALENDARS									
13	CALENDARS									
14	CALENDARS									
15	CALENDARS									
16	CALENDARS									
17	CALENDARS									
18	CALENDARS									
19	CALENDARS									
20	CALENDARS									
21	FURNITURE									
22	FURNITURE									
23	FURNITURE									
24	FURNITURE									
25	FURNITURE									
26	FURNITURE									
27	FURNITURE									
28	FURNITURE									
29	FURNITURE									
30	FURNITURE									
31	COMPUTER ACCESSORIES									

CONTRACT NO. 1S-06-75-55

APPENDIX IV

(EXTRACT)

**OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT**

**SCHEDULE OF MONTHLY THIRD CATEGORY SALES
THROUGH FEBRUARY 2008**

Month	Number of Transactions	Quantity of Items Sold	Total Sales¹
Sept. 2006	59	320	\$3,915.03
Oct. 2006	2,296	22,991	\$164,007.96
Nov. 2006	9,605	71,779	\$679,087.61
Dec. 2006	13,006	89,200	\$836,433.07
Jan. 2007	14,943	94,317	\$1,149,537.56
Feb. 2007	11,483	69,554	\$951,970.85
Mar. 2007	14,198	106,183	\$1,251,860.94
Apr. 2007	13,646	93,483	\$1,137,840.73
May 2007	17,078	112,063	\$1,503,571.57
June 2007	16,510	126,317	\$1,673,567.79
July 2007	3,668	37,167	\$501,038.58
Aug. 2007	4,541	41,358	\$485,193.15
Sept. 2007	7,743	51,306	\$848,407.50
Oct. 2007	7,785	51,660	\$646,344.44
Nov. 2007	6,026	34,894	\$526,002.19
Dec. 2007	6,172	34,362	\$533,084.09
Jan. 2008	6,875	40,930	\$924,330.03
Feb. 2008	4,366	28,001	\$406,774.15
Total	160,000	1,105,855	\$14,222,967.24

¹ Total sales amount is prior to the application of an additional 1% discount for online orders. The first order processed was on September 21, 2006. The last order processed per audit was on February 26, 2008.

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
1	348037*	3726	59622	\$ 1,287,238.98	PAPER,COPY,85X11,104 BRT,BOND
2**	680017*	538	10453	\$ 366,795.77	PAPER,LTR,20,RECY,MULTI
3	8815825	1	1525	\$ 315,675.00	TONER CARTRIDGE
4	LXX64015HA	1	1000	\$ 256,000.00	Lexmark High Yield Toner for T642N Printer
5	911587	315	760	\$ 127,840.25	TONER,UF9000,10K YLD,BLACK
6	333465*	79	3820	\$ 102,528.80	PAPER,HP OFFICE,LETTER,20,WHT***
7**	489461	1156	4408	\$ 81,798.50	TAPE,MGC,SCTH,3/4 X1000 ,10PK
8	169771*	470	2550	\$ 76,474.50	CARTRIDGE,INK,BLK,51645A
9	821557	170	355	\$ 75,806.45	HEADSET,WIRELESS,CS50
10	347005*	318	2960	\$ 75,243.20	PAPER,HAMM,TIDAL,11 ,20,WHITE***
11**	345660*	576	10727	\$ 67,472.83	PAPER,COPY,85X11,YEL,5M/CT
12	536640*	249	2645	\$ 66,442.40	PAPER,MP,OD,85 X11,10/CA,WHT***
13	813212	66	1457	\$ 65,595.93	PAPER,COMP,14-7/8X11,GREEN BAR
14**	345637*	663	9615	\$ 60,478.35	PAPER,COPIER,20,LTR,BLU,500SH
15	725219	4	82	\$ 59,039.18	TV,HD,LCD,MAGNAVOX,32***
16	353048	30	467	\$ 50,890.19	CRTDG,DATA,SDLT II,600GB
17	150502	30	75	\$ 50,624.25	FAX,PPF,BROTHER,5750E
18	910414	216	9908	\$ 49,331.32	TAPE,CLEAR TRANSP 1 X72YD
19	234642	166	590	\$ 48,874.10	CASE,CATALOG,WHEELED,W/FILE
20**	452367	710	10258	\$ 48,512.22	FLAG,TAPE,IN DISP,2PK,RED
21	667714	3	14	\$ 47,999.86	SHREDDER,7SHT,V391HS,ATIVA,WHT
22	275474*	108	1847	\$ 45,417.73	PAPER,COPY,XEROX,85X11,10/CT***
23	940593*	101	1434	\$ 44,726.46	PAPER,MULTIPURP,11 ,20,106 BR***
24	115036*	27	174	\$ 42,200.22	TONER,LASERJET,HP 51X,BLACK
25	267331*	59	108	\$ 40,498.92	FAX,BROTHER,PPF4750E
26	940320*	185	24025	\$ 40,362.00	FILE,STRGE,ECOLOGIC,12X10X15
27	565501	1	150	\$ 39,840.00	CHAIR,ERGO,SP ORDER,RAVEN
28	943175*	30	1031	\$ 39,580.09	BOOK,RECORD,1275X85,CVS,BLU
29**	452391	596	8349	\$ 39,295.36	FLAG,TAPE,IN DISP,2PK,GREEN
30**	575341	637	1716	\$ 39,291.54	TAPE,ACITAPE,75X1296 ,OD,10PK
31	667707	14	22	\$ 39,099.78	SHREDDER,25SHT,V391C,ATIVA,WHT
32	940841	101	1253	\$ 39,093.10	PAPER,BOND,BLK PERF,12X85,18

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX VI
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SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
33**	345652*	519	6198	\$ 38,985.42	PAPER,COPY,85X11,PNK,5M/CT
34	345296*	78	1040	\$ 37,429.60	PAPER,100 RECYCLED,85X11
35**	473576	273	1200	\$ 37,428.00	TAPE,INVISIBLE,3/4 X1296 ,PK16
36**	345645*	529	5710	\$ 35,915.90	PAPER,COPY,85X11,GRN,5M/CT
37	452409	474	7284	\$ 34,890.36	FLAGS,TAPE,IN DISP,2PK,YELLOW
38**	345686*	464	5491	\$ 34,538.39	PAPER,COPY,85X11,GRD,5M/CT
39**	946376	245	4086	\$ 32,933.07	TAPE,FILAMENT,24MMX55M,BULK
40	128384	35	8498	\$ 32,338.33	FOLDER,CLASSIFIED,LTR,GRN
41	922981*	176	347	\$ 30,532.53	HOLDER,DOCUMENT,IN-LINE,3M
42	348045*	316	1087	\$ 30,403.39	PAPER,COPY,14 ,104BR
43	731320	76	214	\$ 30,233.17	TONER,HP 4250/4350/4345MFP,BLK
44**	569509*	218	6142	\$ 30,034.38	TAPE,AUDIO,UR-90,5PK
45	946384	228	1922	\$ 29,920.07	48MMX55M FILAMENT TAPE
46	850144	42	54	\$ 29,637.46	PHONE,SOUNDSTATION 2,EXPANDABL
47	1010AVANTFLK	15	115	\$ 29,340.34	CART,AV,ADJ CNTR SHELF,BK
48**	452375	589	6236	\$ 29,289.99	FLAG,TAPE,IN DISP,BLUE,2PK
49	172528	441	2525	\$ 29,133.63	PAD,NTE,POST 3 X5 ,12/PK,YEL
50	249842	61	120	\$ 29,027.36	HEADSET,CS55,PLANTRONICS
51	114756*	55	196	\$ 28,255.36	TONER,HP 51A,LASERJET,BLACK
52	111740	5	2160	\$ 28,123.20	BINDER,D-RING,3 ,VUE,WHITE
53	502675*	72	194	\$ 27,701.26	TONER,REMAN,OD,4250/4350
54**	751441*	103	5425	\$ 27,070.75	PAPER,LASER,OD,24LB,113 BRIGHT
55**	625312	444	1007	\$ 26,974.10	TAPE,SCOTCH,75X1000 ,16/PK
56	863152	65	108	\$ 26,873.92	FAX,LASER,HIGH SPEED,2920
57	705424	16	620	\$ 26,624.70	HP ULTRIUM DATA CARTRIDGE 400G
58	813311	58	1041	\$ 26,077.25	PAPER,COMPUTER,1PART,95X11
59	780695	11	44	\$ 25,959.56	FILE,6-SHELF,W/LK,LTR,PY
60	945464	58	329	\$ 25,207.46	TONER,SHR FAX FO50ND,BLACK
61	443520	540	2803	\$ 24,496.67	FLAG,POST-IT,1 MULTI COLOR
62	943126*	40	976	\$ 24,195.04	BOOK,JOURNAL,12-1/8X7-5/8,CVS
63	599807	305	1236	\$ 24,089.93	REFILL,2PPD,JAN-DEC,51/2X81/2
64	502703*	50	165	\$ 24,040.50	TONER,REMAN,OD,4250/4350HY

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CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
65	337998*	4	4970	\$ 23,806.30	PAPER,FILLER 3-HOLE 16 8
66	752376*	53	113	\$ 23,728.87	HEADSET SYSTEM,BLUETOOTH
67	601389	866	14487	\$ 23,338.74	DESKPAD,MLY,22X17
68	813345	40	402	\$ 23,295.16	PAPER COMP,9 1/2 X 11 2PRT-1
69	503466	85	164	\$ 23,184.82	FILTER,GLARE,UNIV,16-19 MONITR
70**	307389*	682	3489	\$ 22,922.73	PAD,STENO,6X9,GREGG,DOZ,70SHT
71	112999*	103	410	\$ 22,767.30	INK,HP 96,TWIN PACK,BLACK
72	363891*	22	175	\$ 22,748.25	CHAIR,PATRIOT,PEWTER
73	254089*	403	4102	\$ 22,519.98	TAPE,CORRECTION,LP DRYLINE,2PK
74	936237*	45	4855	\$ 22,284.45	FOLDER,CLASS,LTR,VRT,2DIV,BLU
75	856528	29	77	\$ 22,261.86	MICROMICR TONER LJ4250
76	495200*	205	895	\$ 21,739.55	PAPER,COPY,85X11,3HP,104BR
77	S5606013	29	83	\$ 21,283.60	HEADSET,WIRELESS,CS70,W/HL10
78	943353	65	97	\$ 21,049.43	SHREDDER,ATIVA,18 SHT,XCUT
79	575174*	9	106	\$ 20,138.94	CHAIR,EXECUTIVE,FABRC,CHARCOAL
80	813204	51	705	\$ 19,730.63	PAPER,COMPUTER,1PT,18LB
81	602894	324	2956	\$ 19,480.04	DESKPAD,MLY RECYCLED,22X17
82**	160283	102	3691	\$ 19,470.24	TAPE,FILAMENT,18MMX55M,BULK
83**	617209*	539	2530	\$ 19,455.70	PAD,POST-IT,RULED,YELLOW,5/PK
84	589594	33	36	\$ 19,344.64	SHREDDER,XCUT,24SHT,COMM MED
85	667742	6	7	\$ 19,249.93	SHREDDER,38SHT,XCUT,ATIVA,WHT
86	363871*	36	145	\$ 18,848.55	CHAIR,PATRIOT,BLACK
87	588268	104	8785	\$ 18,712.13	BOOK,COMP,100SH,WD,975X75,MB
88	510830*	32	62	\$ 18,599.38	CHAIR,MESH,QUANTUM
89	365199	15	16	\$ 18,483.47	SHREDDER,POWERSHRED 320CC
90	280224	2	123	\$ 18,448.77	CHAIR,GUEST,FABRIC,ASH
91	365091	8	10	\$ 18,356.13	SHREDDER,POWERSHRED MODEL480CC
92	432206*	32	46	\$ 18,299.54	FAX,LASER,PLN PAPER,PPF4100
93	7862320	1	58	\$ 17,977.10	EVERGREEN CHAIR WITH ARMS
94	577673	12	117	\$ 17,880.75	TONER,LJ,HP 2420/2430,HY
95	472416	27	88	\$ 17,759.92	TONER,FOR UF890,PANASONIC
96	569491*	181	4164	\$ 17,447.16	CASSETTE,AUDIO,60MIN,6/PK

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CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
97	535784*	115	247	\$ 17,287.53	HEADSET SYSTEM, TELEPHONE, S12
98	925959	49	83	\$ 17,243.20	CRTDG, F/1000/2200/2350/2400
99	396011	102	191	\$ 17,078.09	PORTFOLIO, WHEELED, 6 ,BALLISTIC
100	497800	7	2644	\$ 16,868.72	BINDER, D-RG, VIEW, 11X85, 1 ,WHT
101	267751	316	2742	\$ 16,688.98	PHONE WIPES, 100CT
102	940643*	46	466	\$ 16,631.54	PAPER, COPY, 11X17, 20, WHITE***
103	672565*	41	120	\$ 16,468.80	CARTRIDGE, HP LSRJET, Q7516A, BLK
104	852720	17	30	\$ 16,172.85	SOUNDSTATION2 NON EXPANDABLE
105	780702	6	25	\$ 15,875.41	FILE, 6SHF, GY, LTR, W/DOOR
106	566401	108	375	\$ 15,746.85	INK, HP 45A, TWIN PACK, BLACK
107	S6257995	21	65	\$ 15,727.43	HEADSET, WIRELESS, SYSTEM
108**	452425	390	3336	\$ 15,689.24	FLAG, TAPE, IN DISP, 2PK, PURPLE
109	172403	42	3370	\$ 15,446.63	3M TRANSPARENT 3/4X2592TP
110	676168	34	589	\$ 15,308.11	SURGE, MAX, 8 SOCKET, SURGEMASTER
111	167046*	53	340	\$ 15,296.60	PAPER, LGL, 20, RECY, MULTI
112	332554	121	3482	\$ 15,151.98	CASSETTE, AUDIO, UR120, MAX, 4/PK
113	238288*	50	100	\$ 14,999.00	FAX, LASER, 2820
114	599284	183	1161	\$ 14,953.14	TAPE, TRANS, 3M, 3/4X1000, 6/PK
115**	452417	329	3151	\$ 14,889.69	FLAG, TAPE, IN DISP, ORANGE, 2PK
116	328912	32	101	\$ 14,778.17	CARTRIDGE, LASER, UG-5520
117	502619*	56	186	\$ 14,701.44	TONER, LASER, REMAN, OD, 2420
118	550657	224	2937	\$ 14,655.63	FLAG, TAPE, SIGN HERE , 2/PK
119	792489	6	24	\$ 14,369.92	BOX, FILING, CORRUGATE, 300/PLT
120	696526	225	1098	\$ 14,361.82	BATTERY, SIZE AA, ALKALINE, 24BOX
121	863238	124	264	\$ 14,314.96	FLAGS, 1 , 24PK, RED, POST-IT(R)
122	173054	42	2889	\$ 14,287.95	3M MAGIC TAPE 3/4 X 2592
123	589538	30	29	\$ 14,099.71	SHREDDER, X CUT, 18SHT, COMM MED
124	220143	27	128	\$ 14,059.29	TONER, FAX, DEVELOPR, FO4700
125	745190*	16	2975	\$ 13,952.75	PAPER, LTR, 20, RECY, REAM, WHITE
126	616685	1	12	\$ 13,845.00	TV, LCD, 242T, OLEVIA, 42***
127	524935	225	865	\$ 13,824.72	BATTERY, ENERGIZER MAX AA, 24PK
128	415380	70	1446	\$ 13,764.85	TAPE, MAGIC, 3M, 3/4X1296, 4PK

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CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
129	620650*	148	342	\$ 13,676.58	CD-R,SPINDLE,80 MIN,100/PK
130	940767*	18	230	\$ 13,659.70	PPR,COMP,RECY,147/8X11,20
131	601277	50	57	\$ 13,575.09	SHREDDER,15-SHEET,CONFETTI CUT
132	916403	47	265	\$ 13,413.61	LABEL,LSR,ADDR,WHT,7500CT
133	733601*	336	4054	\$ 13,337.66	PENCIL,2,OD,72/BX
134	525583*	7	266	\$ 13,297.34	CHAIR,DESIGNER STACK,STONE
135	112064	89	128	\$ 13,278.63	CASE,ROLLER, CONTOUR
136	517699	19	44	\$ 13,199.56	CHAIR,PSTR 3,MLTI-FCTN,SLATE
137	216645	28	218	\$ 13,079.63	TONER,XEROX,WC665,685
138	783325*	17	34	\$ 12,974.40	CRTDG,T632,T634,EXTRA HY,BK
139	427261*	89	489	\$ 12,855.81	TAPE,SEAL,BOX,2X55YDS,6PK,CLR
140	681000	97	168	\$ 12,774.07	CARTRIDGE,PRINT,LJ2550,BLACK
141	392308*	274	941	\$ 12,505.89	PAPER,ADD,225X85,10PK,WHITE
142	221016	58	95	\$ 12,479.90	TONER FOR PANASONIC UF 790
143	111221	11	578	\$ 12,427.00	PENCIL,SHARPLET2,7MM,DARK BLUE
144	603125*	613	10343	\$ 12,308.17	CALENDAR, PL RFL, DD 3 1/2X6
145	987172*	100	3665	\$ 12,057.85	CORRECTION,DISPOSABLE,DRYLINE
146	371057*	73	137	\$ 12,054.93	AMPLIFIER,TELEPHONE HEADSET
147	222016	81	266	\$ 12,003.84	INK,HP 96/97,COMBO,BLACK/COLOR
148	807871	46	137	\$ 11,947.68	CRTDG,DRUM,F/FO-4650
149	872272	71	242	\$ 11,806.55	GE 29484GE2,CORDED,2,SPKR PHON
150	7862293	1	28	\$ 11,785.76	HIGH BACK CHAIR
151	258938	11	547	\$ 11,760.50	PENCIL,5MM,SHARPLET2,BLACK
152	810929*	281	1674	\$ 11,701.26	FOLDER HANGING LTR 1/3 CUT
153	653271	401	1738	\$ 11,657.92	PAPER,THERMAL,225X85,9/PK,WHT
154	810994*	198	1762	\$ 11,611.58	FOLDER HANGING LTR 1/5 CUT
155	916429	40	250	\$ 11,552.50	LABEL,LSR,ADDR,WHT,3500CT
156	345678*	91	1835	\$ 11,542.15	PAPER,COPY,85X11,BUF,5M/CT
157	502654*	16	87	\$ 11,423.10	TONER,REMAN,OD,2420HY
158	727611*	13	189	\$ 11,375.91	PAPER,COLOR COPY,17,4RM
159	602586	101	1436	\$ 11,312.10	BOOK, APPT DLY HRLY,47/8X8,BLK
160**	676688*	144	321	\$ 11,231.79	CDR,OD,52X,100-PK,SPINDLE

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX VI
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SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
161	943100*	34	667	\$ 11,198.93	BOOK,JOURNAL,12-1/8X7-5/8,CVS
162**	520928	172	509	\$ 11,091.11	TAPE,INVISIBLE,3/4X1000,10/PK
163	309872	120	2644	\$ 10,970.57	MARKER,PERM,3000,CHISEL PT,BLK
164	268091*	334	2247	\$ 10,830.54	PAD,GUM,85X11,OD,WHT,LGL RLD
165	495128*	28	170	\$ 10,808.65	DVD-R,PRINT-TO-CTR,50PK
166	277968*	28	54	\$ 10,799.46	CHAIR,TASK,MULTIFUNCTION,EXEC
167**	203349*	336	2445	\$ 10,635.75	MARKER,SHARPIE,FINE,DZ,BLACK
168	214391	83	3068	\$ 10,614.68	HOLDERS,CD,ADHESIVE,5/PK
169	520632	171	6116	\$ 10,607.33	TAPE,TRANSPARENT,3/4X1296
170	363381*	18	62	\$ 10,539.38	CHAIR,MIRANDA,BLACK
171	605548*	24	30	\$ 10,499.70	CHAIR,MACK 24/7,HEAVY DUTY
172	574544	3	202	\$ 10,305.00	ULTRIUM LTO 2 TAPE CART-200GB
173	600878	126	1712	\$ 10,254.88	DESKPAD,2 CLR REFILLABLE,22X17
174	184978	19	19	\$ 10,237.90	SHREDDER,POWERSHRED,220CC
175	940858	48	352	\$ 10,124.26	PPR,COMP,12X85,20,BW,SE
176**	621748	230	2126	\$ 10,086.94	FLAG,TAPE,IN DISP,BRIT BE,2PK
177	478427*	49	288	\$ 9,918.72	CHAIRMAT,ADVNTG,46X60,WIDE LIP
178	919845	73	162	\$ 9,764.40	BOARD,CORK,OAK-FRAME,36 X48
179	520328	551	3308	\$ 9,716.22	DISPENSER,DESK,1 CORE,BLACK
180	861058	55	64	\$ 9,699.36	FAX,LSR,PANASONIC 511,PLN PPR
181	903914	7	8	\$ 9,689.92	FILE,FLAT,STEEL,5-DRWR,50X38
182	524272*	366	1206	\$ 9,635.94	FILE,VERTICAL,BLACK
183	517663	15	32	\$ 9,599.68	CHAIR,PSTR,MLTI FNCTN,EBONY
184	424338	13	16	\$ 9,587.87	CHAIR,HIGH BACK,MESH,ERGOHUMAN
185**	620336	268	2024	\$ 9,583.71	FLAG,TAPE,IN DISP,NEON PNK,2PK
186	943661	94	89	\$ 9,555.11	SHREDDER,ATIVA,12SHT,DMND CUT
187	877514	215	2105	\$ 9,502.57	HIGHLITER,4009,YELLOW
188	148461	3	16	\$ 9,439.84	FILE,6 DWR SHELF,LTR,CCL
189	667665	6	6	\$ 9,312.74	SHREDDER,25SHT,ATIVA,V270C,WHT
190	173047	53	4178	\$ 9,306.12	TAPE,MAGIC,3M,3/4X1296
191	603083	106	957	\$ 9,196.46	REMINDER, SD RCD DLY 53/4X81/4
192	912182	12	30	\$ 9,181.89	HDST,WRLS,SYS,W/LIFTER

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CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
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LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
193	598673	312	1485	\$ 9,171.15	PLANNER, MONTHLY, 9X11, BLK
194	141848	43	76	\$ 9,046.88	FILTER, PRIVACY, FRAMELESS, 19
195	430270*	4	45	\$ 8,999.55	CREDENZA, COMP, CLASSIC, 2 CRTNS
196	397501*	89	858	\$ 8,954.13	TAPE, FILAMENT, 2IN
197	211838	50	85	\$ 8,851.59	TONER, FAX, F95, F95E, F98
198	321284	3	3	\$ 8,839.99	TABLE, CONF, MODULAR, 14FT, S CHRY
199	841239	75	273	\$ 8,832.28	TONER KIT, OKIDATA 1000
200	826876	234	383	\$ 8,808.03	TAPE, CORRECTION, WITEOUT, 10PK
201	790761*	241	629	\$ 8,799.71	PEN, RETRACT, G-2, BK, FN
202**	958017	215	1847	\$ 8,778.63	FLAG, TAPE, IN DISP, BRIT GN, 2PK
203	403816*	5	250	\$ 8,747.50	STACK CHAIR GRAY
204	813238	14	182	\$ 8,720.14	PAPER, COMPUTER, 14-7/8X11
205	346891	6	12	\$ 8,717.49	SORTER, 2TIER, W/ RISER, GY
206	512405*	154	1119	\$ 8,717.01	SURGE, ATIVA, 208 JOULES, 6 CORD
207	184945	7	20	\$ 8,687.80	SHREDDER, POWERSHRED, 220
208	401331*	23	1147	\$ 8,591.03	PAPER, LASER PRINT, 85X11, 24, WE***
209	587616	7	27	\$ 8,590.98	TONER, LASER, MICR, HP, LJ4300
210	991380*	45	538	\$ 8,495.02	FOLDER, LTR, 11PT, DBL, STRT, MAN
211	478196*	74	169	\$ 8,456.76	CHAIRMAT, L-WKRSTION, 66X60
212	940890	9	179	\$ 8,439.41	PAPER, COMPUTER, 14-7/8X11, 20LB
213	420994*	249	1204	\$ 8,403.92	NOTE, OD, 3 X 3, 18/PK, YELLOW
214	586639*	168	303	\$ 8,359.77	FILE, POCKET, TRIPLE, MESH, BLACK
215	439777	65	207	\$ 8,356.93	INK, HP 56A/57A, COMBO, BLACK/CLR
216	837584	170	867	\$ 8,346.65	POST-IT, FLAGS, VALUE PACK, 5/PK
217	961679*	28	139	\$ 8,281.62	INK, HP 96/97, COMBO, BLACK/COLOR
218	478028	98	296	\$ 8,270.24	CHAIRMAT, ECONO, 46X60, UTILITY
219	646670	9	103	\$ 8,238.97	TOSHIBA SD V295 - DVD/ VCR COMB
220	812808*	73	391	\$ 8,207.09	CARTRIDGE, INKJET, HP 98, BLACK
221	515134	7	16	\$ 8,179.85	SORTING, TABLE, 30 X60
222	667574	13	13	\$ 8,141.87	SHREDDER, CRC, 12SHT, ATIVA, WHT
223	425255	204	883	\$ 8,105.67	CORD, EXT SRGE BNDLE, 6 , ATIVA
224	515604	84	213	\$ 8,076.05	CDR IMATION 100PK

APPENDIX VI
8 OF 14OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
225	254320*	120	2697	\$ 8,064.03	TAPE,CORRECT,RFL,LP
226	345603*	7	2551	\$ 8,010.14	PAPER,COPY,4200DP,85X11,WE***
227	280288	8	40	\$ 7,999.60	CHAIR,MANAGER,FABRIC,ASH
228	884096	41	57	\$ 7,919.43	CASE,COMPUTER,WHEELED,NYLON
229	344344*	252	1027	\$ 7,897.63	BADGE,CARDREEL,TRANSLUCENT,4PK
230	841195*	40	2844	\$ 7,877.88	PAPER,COPY,85X11,104BRT,WHITE
231	303913	10	23	\$ 7,876.26	DRUM,LJ 9500,BK
232	940908	28	297	\$ 7,870.47	PAPER,COMPUTER,95X11,20LB
233	239269*	149	461	\$ 7,832.39	CLOCK,COMMERCIAL,135 DIAL,BLK
234	965232*	159	340	\$ 7,816.60	TAPE,CORRECTION,FORAY,12PK
235	112169	18	103	\$ 7,814.85	LASER BUSINESS CARDS 2500
236	588800	6	30	\$ 7,802.11	KIT,MAINT 110V LJ 4200,BK
237	602418	89	1852	\$ 7,759.88	BOOK,APPT DM W,4 7/8X8,BLK
238	937672*	48	265	\$ 7,735.35	FOLDER,LTR,2PLY,STRT-END,GREEN
239	352448	1	100	\$ 7,722.00	CRTDG,DATA,ULTRIUM,RW,800GB
240	250983	54	387	\$ 7,721.28	PAPER,COPY,OD,85X11,5/CA,WHT
241	502934*	38	167	\$ 7,663.63	TONER,REMAN,OD,1160/1320STD
242	920173*	6	23	\$ 7,649.57	BOARD,CORK,OAK,GLASS DOOR,3X4
243	745133*	49	1819	\$ 7,621.61	TAPE, MASKING, 1 X60,BLUE
244	429431*	543	5889	\$ 7,596.81	CLIP,BINDER,MEDIUM,
245	921408*	35	126	\$ 7,560.00	PAPER,OD,GRN TOP,11X17,5RM/CS
246	134640	54	142	\$ 7,528.54	INK,HP 15D,TWIN PACK,BLACK
247	676275	29	48	\$ 7,526.40	CRTDG,LSR,F/4730,BK
248	657463	16	17	\$ 7,479.83	CHAIR,TASK,TLTK,GLIDE,GY
249	911989	33	81	\$ 7,470.14	CASE,COMP,WHLD,SWISS ARMY,BLK
250	251668*	25	178	\$ 7,456.42	PAPER,HP,MULTIPURPOSE,LTR***
251	265276*	191	1408	\$ 7,448.32	PEN,EF,FELT TIP,DZ,BLACK
252	667686	3	4	\$ 7,443.36	SHREDDER,40SHT,ATIVA V391S,WHT
253	676289	17	22	\$ 7,427.20	CRTDG,LSR,F/4730,CYN
254	171134	1	20	\$ 7,399.80	MONITER,20,PLANAR PL2010M-BK
255	824522	74	314	\$ 7,380.70	CRUISER MATE W/ TRAY
256	153049	4	13	\$ 7,359.87	DESK,DBL PED,60X30,MED OAK

APPENDIX VI
9 OF 14OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
257	268921	113	139	\$ 7,296.11	PAPER,ADD,ROLL,225X100,50PK
258	989772*	3	23	\$ 7,244.77	CABINET,72X36X24,PUTTY
259	569630*	2	36	\$ 7,198.02	GPS,TRAVEL ASSISTANT, NUVI 350
260	363821*	8	42	\$ 7,139.58	CHAIR,MIRANDA,PEWTER
261	676310	13	21	\$ 7,089.60	CRTDG,LSR,F/4730MFP,MA
262	707024	64	391	\$ 7,084.62	DAT 72 DATA CARTRIDGE 72GB
263	183806	155	705	\$ 7,076.41	LEAD,7MM,MED,BLK,12-TUBES
264	988212*	375	3372	\$ 7,047.48	PORTFOLIO,POCKET,TWIN,10PK,YEL
265	863287	59	131	\$ 7,043.99	FLAGS,1,24PK,POST-IT(R),BLUE
266	794472	1	11	\$ 7,040.00	CABINET,WARDROBE-FILE,BLACK
267	618990	15	170	\$ 7,014.30	TRAVELDRIVE,2GB
268	489631	30	73	\$ 7,007.27	PORTFOLIO,WHLD,3 GST,NYLON,BLK
269	113517	1	1	\$ 6,999.99	SHREDDER,80SHT,CROSS CUT,ATVA
270	344258	2	17	\$ 6,983.60	CAMERA,DIGITAL,STYLUS,770SW***
271	203125*	92	1068	\$ 6,931.32	Q1 MARKER,MEDIUM,MAJOR ACCEN
272	632398*	11	33	\$ 6,929.67	4 ADJUSTABLE SHELF CABINET
273	667553	7	15	\$ 6,899.85	SHREDDER,22SHT,ATVA,V180S,WHT
274	303471*	1	30	\$ 6,899.70	DESK,30X60,CLASSIC CHERRY
275	462327*	125	749	\$ 6,883.31	PAPER,VELLUM,67,85X11,WHITE
276	388855	16	21	\$ 6,860.99	PRINTER,IMAGING UNIT
277	647890	31	88	\$ 6,850.80	TONER,TYPE 116,3725,BK
278	863856	29	1143	\$ 6,846.57	WEBSTERS CMPCT OFFC DICTIONARY
279	548701	488	3707	\$ 6,827.69	REMOVER,STAPLE,PUSHTYPE,BLACK
280	281448*	25	174	\$ 6,819.06	PAD,EASEL,4PK,WHITE
281	667735	2	2	\$ 6,796.58	SHREDDER,65SHT,V401S,ATVA,WHT
282	213152	13	42	\$ 6,724.19	TONER,FAX IX2700/IX2701,BLACK
283	108729*	50	184	\$ 6,688.40	INKHP 94,TWIN PACK,2PK,BLK
284	S3111368	13	22	\$ 6,687.78	HEADSET,WIRELESS,PLANTRONICS
285	194285*	15	35	\$ 6,649.65	BOOKCASE,5-SHF,34X12X71,PTY
286	574928	37	64	\$ 6,635.63	PRIVACY FILTER,17 LCD,BLACK
287	479162	17	329	\$ 6,625.13	PAPER,RECY,25,20,REAM,WHITE
288	792510	6	72	\$ 6,624.00	TONER,CANON IMAGERUNNER 8500

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX VI
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SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
289	155269	25	66	\$ 6,609.34	CHAIR, TASK, SUEDE, GREY
290	544206*	105	821	\$ 6,559.79	PAPER, COPY, 85X11, BLUE, 5M
291**	478156*	277	1042	\$ 6,554.18	PAPER, COPY, 500-CT, 85X11, LILAC
292	514665	4	15	\$ 6,519.85	CAMERA, DIGITAL, POWERSHOT S5 IS***
293	489674	104	162	\$ 6,508.88	BOARD, DRY-ERASE, 48X36
294	410261	4	4	\$ 6,496.49	SHREDDER, 420CC CROSSCUT, PWRSHR
295	598414	83	985	\$ 6,491.15	DESKPAD, FASHION, 22X17, BLUE
296	508216*	9	38	\$ 6,459.62	CHAIR, EXEC, HIGH BACK, BLACK
297	574698	103	1612	\$ 6,431.88	DIVIDER, A-Z, OD, LEATHER, BLACK
298	813220	16	135	\$ 6,430.47	PAPER, GREENBAR, 14 7/8X11, 18
299	108687*	57	102	\$ 6,424.98	INK, HP 97, TWIN PACK, TRI-COLOR
300**	429415*	541	9296	\$ 6,414.24	CLIP, BINDER, SMALL, 12/BOX
301	928705	117	4192	\$ 6,411.22	PENCIL, 7MM, AUTO, BARREL BLUE
302	584260*	175	945	\$ 6,407.10	NOTE, POST-IT, 15X2, 24/PK
303	504336	93	483	\$ 6,406.57	SPEAKERPHONE, GE29322GE1, CRDED
304	556531	224	445	\$ 6,339.95	REST, FOOT, STANDARD
305	941920	11	26	\$ 6,319.99	KIT, MAINT, ASSEMBLED, LJ 4000 T
306	438761*	276	1972	\$ 6,290.68	OPENER, LETTER, 2/PK, BLACK
307	456904*	56	286	\$ 6,289.14	TAPE, PKNG, 2X55YDS, 6PK, RFL ROLL
308	846205	32	397	\$ 6,279.36	PERMANENT PLAQUE BK/ONYX
309	721702	11	15	\$ 6,274.86	KIT, MAINTENANCE, 110V, HP LJ8100
310	433680*	222	3001	\$ 6,272.09	PORTFOLIO, POCKET, TWIN, 10PK, LTB
311	929385	13	18	\$ 6,271.76	FUSER, KIT, 110V, F/HP85
312	103366	46	242	\$ 6,259.81	DIVIDERS, RB 11X85 1/5TAB
313	462285*	51	679	\$ 6,240.01	PAPER, VELLUM, 67, 85X11, GREEN
314	632215*	9	78	\$ 6,239.22	CHAIR, GUEST, ESTES, GLOBAL
315	843603	14	68	\$ 6,199.32	DRIVE, FLASH, 8GB, ATIVA, GRAY
316	445511	140	520	\$ 6,188.80	BATTERY, AAA, ENERGIZER, 24/BX
317	154616	152	856	\$ 6,184.84	CLEANER, NOTEBOOK/LCD
318	184911	3	6	\$ 6,173.94	SHREDDER, POWERSHRED, 380
319	788226	9	115	\$ 6,155.61	TRIPP LITE INTERNET OFFICE INT
320	330264	9	77	\$ 6,147.51	BOX, CORR, 18X12X12, 25/BDL

APPENDIX VI
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CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
321	405935	59	99	\$ 6,145.81	SHREDDER,ATIVA,8-SHEET,W/LIGHT
322	440472	19	28	\$ 6,132.47	MICR TONER,HP LJ 4000
323	403671	13	20	\$ 6,120.51	DRAWER,KEYBRD,FULLY,ARTICULTNG
324	173328	61	233	\$ 6,111.17	DISPENSER,TAPE,HD,3 CORE,BEIGE
325	488718*	44	1422	\$ 6,100.38	FOLDER,GLASS,LTR,2/5,2-DIV,BLU
326	856552	8	16	\$ 6,099.20	MICROMICR MICR TNR,HP LJ 4250
327	676303	17	18	\$ 6,076.80	CRTDGLSR,F/4730,YW
328	268081*	213	651	\$ 6,054.30	BOOK,STENO,RECY,GREGG,80PG,WHT
329	589482	23	33	\$ 6,049.49	SHREDDER,STRAIGHTCUT,16SHT
330	295223*	14	67	\$ 6,022.63	CARTRIDGE,HP LJ Q7553A,BLACK
331	776647	4	20	\$ 5,999.80	TABLE,CONFERENCE,72X36,MY
332	156332	9	27	\$ 5,983.00	TONER,CPY,IMAGERUNNER550
333	108799*	39	184	\$ 5,945.04	INK,HP 92/93,COMBO,BLACK/COLOR
334	478743*	164	640	\$ 5,936.09	INDEX SHEET SET
335	738671	89	546	\$ 5,934.54	COVER,DOCUMENT,6PK,NAVY
336	106580	42	310	\$ 5,928.10	TAPE,DGTL,MINI DV,DVM-60,3PK
337	308239*	281	1097	\$ 5,912.83	CLIP,PAPER,JUMBO,SMOOTH,10PK
338**	686160	141	278	\$ 5,906.03	TAPE,MAGIC,BONUS,10/PK
339	258101	116	523	\$ 5,867.76	MARKER,CARTER S,CHISEL,LRG,BLK
340	587246*	5	45	\$ 5,849.55	BOOKCASE,OPEN,CLASSIC CHERRY
341	403765	1	15	\$ 5,849.25	NAVIGATION,TOMTOM GO510
342	HEWQ2612A*	14	110	\$ 5,834.71	CARTRIDGE,LASER,Q2612A
343	475814	33	327	\$ 5,807.93	FOLDER,LTR,1/3,RECYCLED,100/BX
344	679792*	37	387	\$ 5,801.13	CDRW,OD,12X,10-PK,SLIM
345	801605*	3	10	\$ 5,799.90	FILE,LAT,4DRWR,42 W,W/LOCK,PTY
346	414086	42	1116	\$ 5,792.04	BOOK,COMPOSITION,MARBLE,3/PK
347	377435*	3	175	\$ 5,773.25	FILM,POLAROID,COLOR PK 669,2CT
348	536294*	78	980	\$ 5,772.20	TAPE,CORR,LP,REFILLABLE,SMOKE
349	971888	2	4	\$ 5,756.80	PHONE,CONFERENCE,AUTOMATIC
350	806201	23	42	\$ 5,756.35	BOARD,BULTN,DMNDMESH,4X3,MY
351	HEWQ6462A	3	17	\$ 5,739.20	CRTDGLSR,F/4730,YW
352	951111*	25	598	\$ 5,734.82	RIBBON,CORRECT,F/EM501,511

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX VI
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SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
353	106699	20	551	\$ 5,721.29	TAPE, VIDEO, HI 8MM, XRM-120, 2PK
354	395991	210	1601	\$ 5,716.40	POST-IT FLAG, ASTD CLR, 4/PK
355	539011	3	8	\$ 5,699.92	FILE, LAT, 5DWR, W/STRG, LGY
356	577976	34	57	\$ 5,699.43	CASE, NOTEBOOK, ROLLING, XL, TARG
357	451774	23	22	\$ 5,652.31	LAMINATOR, 13, H400
358	508646*	71	161	\$ 5,649.49	CHAIRMAT, BERBER, 46X60, UTILITY
359	475627*	81	263	\$ 5,638.72	CHAIRMAT, ADVNTG, 36X48, STD LIP
360	963967	9	193	\$ 5,633.67	PPR, COMP, 95X11, 18, GB, VP
361	670626	5	33	\$ 5,624.52	DRUM, WORKCENTRE PRO 665/7
362	880984*	28	176	\$ 5,612.64	TAPE, SEAL, 2 X55YD, 36PK, CLR
363	850224	23	29	\$ 5,611.55	EXTENDED MIC
364	184952	4	4	\$ 5,599.49	SHREDDER, W/TRAY, CROSSCUT, 380
365	968546	11	64	\$ 5,588.86	PAPER, COMP, 95X55, 2PT, 15, W/C
366	567390	10	31	\$ 5,579.69	CHAIR, EXECUTIVE, FABRIC, BROWN
367	405128	54	241	\$ 5,547.38	STAND, CPU, W/CASTERS PREMIUM
368	748851*	37	404	\$ 5,522.68	QUICKPACK, HP 2500 ST, LTR
369	115743*	44	103	\$ 5,519.77	INK, HP 45A, TWIN PACK, BLACK
370	420445	4	10	\$ 5,499.90	CHAIR, HI-BACK, GRAY
371	600682	131	433	\$ 5,451.47	ERASABLE, YRLY VERT/HORIZ, 24X36
372	452031	4	12	\$ 5,434.85	RACK, DISPLAY, ROTO, 92PKT, PTY
373	312862	31	60	\$ 5,429.40	FAX, PLAIN, PAPER, PPF1270E
374	373888	1	32	\$ 5,427.20	ART, 27X27, OAK TREE, BLACK
375	185856	23	1499	\$ 5,416.37	CLASSIFLD, LTR, 2DIV, 2IN, GRN
376	395971	231	1533	\$ 5,410.14	POST-IT FLAG, BRIGHT ASTD, 4/PK
377	919837	66	149	\$ 5,406.72	BOARD, CORK, OAK-FRAME, 24 X36
378	332629*	122	235	\$ 5,402.65	CD-R, 80MIN, SPINDLE, 50PK
379	HEWQ6463A	4	16	\$ 5,401.60	CRTDG, LSR, F4730MFP, MA
380	880318*	34	270	\$ 5,397.30	CD-R, WRITEPRINT, MEMOREX, 30/PK
381	925971	184	957	\$ 5,395.62	FLAGS, INDEX, DURABLE, FLUOR/PINK
382	680942	8	904	\$ 5,387.84	HHGLIGHTER, ZAZZLE, 5-CLR
383	616675	3	6	\$ 5,368.74	TV, LCD, 23" T, OLEVIA, 37
384	675944	51	378	\$ 5,288.22	SURGE, 7 SOCKET, SURGEMASTER

APPENDIX VI
13 OF 14OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDITSCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
385	369589*	178	504	\$ 5,286.96	TAPE,CORRECTION,MONO RETRO,4PK
386	716361	24	44	\$ 5,281.22	HANDTRUCK,STOW-AWAY
387	285888	49	88	\$ 5,279.12	PRINT HEAD,HP 88,BLACK/YELLOW
388	134864	16	44	\$ 5,277.17	TONER,FAX,PITNEY BOWES,9900
389	475823	61	232	\$ 5,275.68	CHAIRMAT,ECONO,45X53,WIDE LIP
390	108897	17	19	\$ 5,269.47	PHONE,CNFRNCE,VOICESTATION 300
391	345710*	55	685	\$ 5,267.65	PAPER,COPY,85X14,BLU,5M/CT
392	444611	64	1032	\$ 5,255.04	TAPE,MASKING,OD,189 X60 ,3PK
393	754421*	36	103	\$ 5,251.97	BADGE,NECK,HANGING,100CT
394**	422392	121	704	\$ 5,238.76	TAPE,OD,INVISIBLE,4PK,BOX
395	195048	2	14	\$ 5,235.86	DRUM,PHSR5500,XEROX
396	602817	33	669	\$ 5,211.51	DESKPAD,ACTN PLNR,22X17
397	642857	6	25	\$ 5,200.00	TONER,FAX,3500/5000, BK
398	278008*	13	26	\$ 5,199.74	CHAIR,MULTIFUNCTION,EXEC,NVY
399	632044*	9	52	\$ 5,199.48	CHAIR,MGR, ESTES ,GLOBAL
400	223214	6	305	\$ 5,181.95	PENCIL SET,36-COLOR,VERITHIN
401	590928	1	8	\$ 5,159.92	BOARD,ROLLING,RVRSBL,4X6,WHITE
402	500272*	32	1361	\$ 5,158.19	FOLDER,CLASS,LTR,2/5,1DIV,BLU
403	475676	96	248	\$ 5,155.92	CHAIRMAT,ECONO,36X48,STD LIP
404	936195*	45	1784	\$ 5,155.76	FOLDERS,CLASS,4SEC,LTR,RD/BN
405	331000*	78	305	\$ 5,145.35	ENVELOPE,CAT,28LB,105,250BX
406	111816	25	39	\$ 5,128.10	FILTER,PRIVACY,17
407	108540*	41	141	\$ 5,125.35	INK,HP 98,TWIN PACK,BLACK
408	392628*	43	170	\$ 5,098.30	CARTRIDGE,HP 78 PLUS,TRI-COLOR
409	314304	12	69	\$ 5,094.95	CARTRIDGE,LASER,CANON,FX-8
410	910430	8	3270	\$ 5,068.50	TAPE,INVISIBLE,3/4 X36YD
411	717321	153	887	\$ 5,061.72	TAB,POST-IT,DURABLE,3/PK
412	586684*	69	152	\$ 5,044.88	ORGANIZER,TRAY,PART,MESH,BLK
413	492840	4	42	\$ 5,043.34	CALCULATOR,GRAPHING,T184 PLUS
414	570015	43	336	\$ 5,036.64	DIARY,SD DLY RMDR,5X71/2
415	373636	1	32	\$ 5,017.60	ART,26X22,THE SCRIPPS PIER,BLK
416	182877	15	2694	\$ 5,010.84	PEN,LIQUID,EXPRESSO,BLUE

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF THIRD CATEGORY PRODUCTS WITH SALES
TOTALING OVER \$5,000 THROUGH FEBRUARY 2008

LINE NUMBER	PRODUCT SKU	NUMBER OF TRANSACTIONS	QUANTITY OF ITEMS SOLD	TOTAL SALES	PRODUCT DESCRIPTION
417	841171	191	851	\$ 5,008.14	PENCIL,COL-ERASE,CARMINE,12/PK
418	751381*	31	983	\$ 5,003.47	PAPER,I,J,OD,24LB,113 BRIGHT
				<u>\$ 8,125,288.50</u>	

Total Third Category Sales
Total (Top 418 Lines)
Percentage

\$ 14,222,967.24
\$ 8,125,288.50
57.13%

* These 152 products were added as non-core products in August 2007. Sales for these items totaled \$3,956,731 prior to that date.

** See Appendix VIII for a product pricing analysis performed for these 31 products.

*** Items sold that should have been restricted per our sample tests. Total sales equal \$461,435.35, including virgin paper sales totaling \$375,047.72.

OUTSTANDING ITEMS CONTINUED:

Date	Action Item #	RFP Ref #	Description	Date Completed
10/26/06	26.	6.4.3 (3)	(Deleted due to lack of Audit relevance.)	1. 10/26/06
				2.
10/26/06	29.		<p>* to provide the State with a list of non core items that do not fall into a category basket. Due by 10/31/06.</p> <p>State's analysis of items will prepare for first step of negotiations.</p> <p>Office Depot to provide first draft of proposal options for negotiations to include:</p> <ul style="list-style-type: none"> - Block and identify those items as "blocked"; - Add them to the contract at a negotiated price; - Negotiate additional basket categories; - Designate those items as non-mandatory and allow agencies to continue to use on-line ordering system however, not referencing the contract number. <p>12/21/2006: * to send 10,000 lines to review by December 27, 2006.</p>	

* Office Depot's Regional Sales Director.

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDITSCHEDULE OF SAMPLED PRODUCTS PRICED WITHOUT
APPLICATION OF CATEGORY BASKET DISCOUNTS

SKU Number	Product Description	Quantity Purchased (a)	Invoice Price (b)	¹ Price Per Audit (c)	Unit Price Difference (b-c) (d)	² Extended Price Paid (axb) (e)	¹ Price Per Audit (axc) (f)	Extended Difference Per Audit (e-f) (g)	Per Audit Applicable Category Basket
*1	458547 Finger Tip Moistener, 3/pk	693	\$1.73	\$2.09	(\$0.36)	\$1,198.89	\$1,448.37	(\$249.48)	Desk Accessories 30%
*2	839945 Vertical Badge Holders 12/pk	526	\$4.69	\$3.14	\$1.55	\$2,466.94	\$1,651.64	\$815.30	Desk Accessories 30%
*3	569509 Audio Tape, UR-90, 5/pk	6142	\$4.89	\$3.35	\$1.54	\$30,034.38	\$20,575.70	\$9,458.68	Audio/Visual Supplies 30%
*4	617209 Post-it Yellow Ruled, 5/pk	2530	\$7.69	\$8.39	(\$0.70)	\$19,455.70	\$21,226.70	(\$1,771.00)	Paper Products 30%
*5	307389 Gregg Ruled Green Steno Pad, DZ	3489	\$6.57	\$6.71	(\$0.14)	\$22,922.73	\$23,411.19	(\$488.46)	Paper Products 30%
*6	203349 Sharpie Fine Point, BLK, DZ	2445	\$4.35	\$4.54	(\$0.19)	\$10,635.75	\$11,100.30	(\$464.55)	Writing Instruments - 35%
*7	676688 CD-R Spindle, 100/pk	321	\$34.99	\$24.04	\$10.95	\$11,231.79	\$7,716.84	\$3,514.95	Computer Accessories 35%
*8	429415 Small Binder Clips, 12-BX	9296	\$0.69	\$0.55	\$0.14	\$6,414.24	\$5,112.80	\$1,301.44	Desk Accessories - 30%
*9	711044 Desktop Punch	238	\$16.79	\$16.79	\$0.00	\$3,996.02	\$3,996.02	\$0.00	Desk Accessories - 30%
*10	576481 Correction Tape, 2/pk	1111	\$3.99	\$2.93	\$1.06	\$4,432.89	\$3,255.23	\$1,177.66	Desk Accessories - 30%
*11	**680017 Paper, LTR, 20 Recy	10453	\$35.09	\$26.32	\$8.77	\$366,795.77	\$275,122.96	\$91,672.81	Paper 25%
*12	751441 Paper, Laser, OD 24lb	5425	\$4.99	\$3.74	\$1.25	\$27,070.75	\$20,289.50	\$6,781.25	Paper 25%
*13	345686 Paper, Copy GRD	5491	\$6.29	\$4.79	\$1.50	\$34,538.39	\$26,301.89	\$8,236.50	Paper 25%
*14	345645 Paper, Copy GRN	5710	\$6.29	\$4.79	\$1.50	\$35,915.90	\$27,350.90	\$8,565.00	Paper 25%
*15	345637 Paper, Copy Blue	9615	\$6.29	\$4.79	\$1.50	\$60,478.35	\$46,055.85	\$14,422.50	Paper 25%
*16	345660 Paper, Copy Yellow	10727	\$6.29	\$4.79	\$1.50	\$67,472.83	\$51,382.33	\$16,090.50	Paper 25%
*17	478156 Paper, Copy Lilac	1042	\$6.29	\$4.79	\$1.50	\$6,554.18	\$4,991.18	\$1,563.00	Paper 25%
*18	478123 Paper, Copy Salmon	659	\$6.29	\$4.79	\$1.50	\$4,145.11	\$3,156.61	\$988.50	Paper 25%
*19	919519 Paper, Copy Cherry	252	\$6.29	\$4.79	\$1.50	\$3,679.65	\$2,802.15	\$877.50	Paper 25%
*20	345652 Paper, Copy Pink	6198	\$6.29	\$4.79	\$1.50	\$38,985.42	\$29,688.42	\$9,297.00	Paper 25%
***21	489461 Tape, MGC, SCTH, 10/pk	4408	\$18.56	\$13.48	\$5.08	\$81,798.50	\$59,411.82	\$22,386.68	Desk Accessories 30%
***22	452375 Flag, Tape Blue, 2/pk	6236	\$4.70	\$3.13	\$1.57	\$29,289.99	\$19,497.88	\$9,792.11	Desk Accessories 30%
***23	625312 Tape, Scotch, 16/pk	1007	\$26.79	\$19.20	\$7.59	\$26,974.10	\$19,330.09	\$7,644.01	Desk Accessories 30%
24	452367 Flag, Tape Red, 2/pk*	10258	\$4.73	\$3.18	\$1.55	\$48,512.22	\$32,645.24	\$15,866.98	Desk Accessories 30%
***25	422392 Tape, OD, Invisible, 4/pk	704	\$7.44	\$5.51	\$1.93	\$5,238.76	\$3,876.84	\$1,361.92	Desk Accessories 30%
***26	173393 Dispenser, Tape, Deluxe, Black	195	\$9.32	\$6.82	\$2.50	\$1,817.50	\$1,329.10	\$488.40	Desk Accessories 30%
***27	232403 Tape, Scotch, 4/pk	267	\$8.34	\$6.07	\$2.26	\$2,225.54	\$1,621.05	\$604.49	Desk Accessories 30%
***28	575341 Tape, Actitape, OD, 10/pk	1716	\$22.90	\$15.75	\$7.15	\$39,291.54	\$27,019.64	\$12,271.90	Desk Accessories 30%
***29	473576 Tape, Invisible, 16/pk	1200	\$31.19	\$22.04	\$9.15	\$37,428.00	\$26,443.80	\$10,984.20	Desk Accessories 30%
***30	946376 Tape, Filament, 24mm x 55m	4086	\$8.06	\$6.09	\$1.97	\$32,933.07	\$24,903.08	\$8,029.99	Desk Accessories 30%

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF SAMPLED PRODUCTS PRICED WITHOUT
APPLICATION OF CATEGORY BASKET DISCOUNTS

SKU Number	Product Description	Quantity Purchased (a)	Invoice Price (b)	¹ Price Per Audit (c)	Unit Price Difference (b-c) (d)	² Extended Price Paid (axb) (e)	Extended Price Per Audit (exc) (f)	Extended Difference Per Audit (e-f) (g)	Per Audit Applicable Category Basket
***31	Tape, Filament, 18mm x 55m	3691	\$5.28	\$3.99	\$1.28	\$19,470.24	\$14,738.27	\$4,731.97	Desk Accessories 30%
32	Flag, Tape Purple, 2/pk*	3336	\$4.70	\$3.15	\$1.55	\$15,689.24	\$10,513.68	\$5,175.56	Desk Accessories 30%
33	Flag, Tape Orange, 2/pk*	3151	\$4.73	\$3.19	\$1.54	\$14,889.69	\$10,039.67	\$4,850.02	Desk Accessories 30%
***34	Tape, Invisible, 10/pk	509	\$21.79	\$14.45	\$7.34	\$11,091.11	\$7,355.41	\$3,735.70	Desk Accessories 30%
***35	Flag, Tape Neon Pink, 2/pk	2024	\$4.74	\$3.18	\$1.56	\$9,583.71	\$6,430.54	\$3,153.17	Desk Accessories 30%
***36	Cleaner, Laser Aspect, Scrubex	138	\$12.12	\$8.69	\$3.44	\$1,672.74	\$1,198.62	\$474.12	Toner/Printing Supplies 25%
***37	Flag, Tape, Bright Blue	2126	\$4.74	\$3.24	\$1.51	\$10,086.94	\$6,879.34	\$3,207.60	Desk Accessories 30%
***38	Tape, Magic, Bonus, 10/pk	278	\$21.24	\$15.21	\$6.03	\$5,906.03	\$4,229.42	\$1,676.61	Desk Accessories 30%
***39	Flag, Tape Bright Green, 2/pk	1847	\$4.75	\$3.24	\$1.51	\$8,778.63	\$5,982.91	\$2,795.72	Desk Accessories 30%
40	Flag, Tape Green, 2/pk****	8349	\$4.71	\$3.17	\$1.54	\$39,295.36	\$26,442.87	\$12,852.49	Desk Accessories 30%
TOTAL						\$1,200,398.59	\$896,525.85	\$303,872.74	

¹"Your Price" with category basket discount.

² Products with sales above \$5,000.00 are also on Appendix VI.

* Numbers 1-20 were converted to a non-core category basket in August 2007.

** Item was inadvertently omitted from a category basket per Office Depot.

*** Numbers 21-39 are on a list of 216 products that had total sales of approximately \$900,000 and, according to Office Depot, were inadvertently omitted from a category basket.

**** A weighted averaged was used to determine Invoice Price, Price Per Audit and Unit Price Difference for Item Numbers 21-40 due to each SKU Number having various prices charged over the review period.

***** The equivalent core item single pack tape flags were rarely purchased (See Appendix XVI).

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDITSCHEDULE OF UNBLOCKED ITEMS
PER SAMPLE TESTS

Item Number	Invoice Number	Invoice Date	Product SKU	Product Description	Invoice Price	Quantity of Items Sold	Total	Office Depot Research Notes	Office Depot Action
1	102979	1/12/08	111578	CANDIES, COFFEE, ASST	9.99	2.00	19.98	online only - blocked *	
2	96926	12/19/07	133587	HEATER, SLIM, ADJ TILT, WHT	35.99	4.00	143.96	in both books - blocked *	
3	77537	10/12/07	149646	FAN, POWER, BLIZZARD, CHARCOAL	27.39	5.00	136.95	in both books - blocked *	
4	110084	2/4/08	164370	VACUUM, E-Z EMPTY DIRT CUP, COMM	294.99	1.00	294.99	in both books - blocked *	
5	102979	1/12/08	203491	CANDY, ARCOR, TOFFEEES, 24 OZ, ASTD	3.89	2.00	7.78	in both books - blocked *	
6	102979	1/12/08	248162	LOLLIPOP, DUM DUM, 2340CT, BULK	59.99	1.00	59.99	not in BSD13, in BSD15, Blocked *	
7	63942	8/13/07	252929	CAMERA, DIGITAL, DSC-W55, SONY	199.99	2.00	399.98	Online only -	Block **
8	81847	10/27/07	273327	COPIER, LASER, DIGITAL, AL-2030	399.99	1.00	399.99	Not available anylonger - was online only	
9	93067	12/7/07	273327	COPIER, LASER, DIGITAL, AL-2030	399.99	1.00	399.99	Online only -	Block **
10	61309	7/11/07	289048	SANITIZER, PURELL, W/ALOE, 12 OZ	149.21	1.00	149.21	in both books - blocked *	
11	104240	1/16/08	321750	SWEETENER, NO CAL, SPLENDA, 100CT	4.49	1.00	4.49	in both books - blocked *	
12	94708	12/12/07	326921	CREAMER, COFFEE, MATE, 50CT, REG	5.79	2.00	11.58	in both books - blocked *	
13	106580	1/23/08	347682	STIRRERS, COFFEE, PLSTIC, 1000/BX	3.39	1.00	3.39	in both books	Block **
14	106580	1/23/08	370912	COFFEE, MAKER, 36 CUP, STST	135.16	1.00	135.16	wholesale item - in BSD15 - blocked *	
15	71279	9/20/07	401050	18 CUFT NO FROST ALL REFRIG	104.19	7.00	729.33	not in BSD13, in BSD15, Blocked *	
16	106314	1/23/08	401050	18 CUFT NO FROST ALL REFRIG	224.99	1.00	224.99	not in BSD13, in BSD15, Blocked	
17	77187	10/11/07	401791	KIT, TOOL, 30 PIECE	40.29	4.00	161.16	in both books - blocked *	
18	106315	1/23/08	455975	POT, EASY POUR, 12 CUP, REG	26.99	1.00	26.99	in both books - blocked *	
19	99719	1/2/08	460050	PRINTER, LASERJET, MONO, P1505	199.99	3.00	599.97	in both books - blocked *	
20	100867	1/7/08	460050	PRINTER, LASERJET, MONO, P1505	199.99	4.00	799.96	in both books - blocked	
21	109121	1/31/08	470975	ALL IN ONE, LSR, W/NTWK, 9840CDW	849.99	1.00	849.99	Online only - wholesale item - 3 in one machine; this is one of those open items that is listed as not mandatory - not blocked.	Block **
22	94708	12/12/07	471565	SUGAR 1/10 OZ 1000 CT	9.99	1.00	9.99	in both books -	Block **
23	68003	9/7/07	471917	CAMERA, DIGITAL, POWERSHOT S3 IS	371.25	1.00	371.25	Not available anylonger - was online only	
24	73375	9/26/07	471917	CAMERA, DIGITAL, POWERSHOT S3 IS	371.25	1.00	371.25	Not available anylonger - was online only	
25	106692	1/23/08	482024	VACUUM, PORTAPOWER	144.99	4.00	579.96	in both books - blocked *	
26	89834	11/28/07	503460	CAMERA, DIGITAL, PS A570IS, CANON	199.99	3.00	599.97	Not available anylonger - was online only	
27	94708	12/12/07	503576	WATER, BOTTLES, 24/CASE	7.19	1.00	7.19	in both books - blocked *	
28	112143	2/9/08	506115	CAMERA, DGT, SD750, SILVER, CANON	219.99	2.00	439.98	Online only -	Block **
29	95255	12/14/07	513575	TV, LCD, DVD COMBO, 26	699.99	1.00	699.99	Not available anylonger - was online only	
30	111134	2/6/08	513850	CAMERA, DIGITAL, SD850 IS, CANON	299.99	5.00	1,499.95	Online only -	Block **
31	85802	11/9/07	514665	CAMERA, DIGITAL, POWERSHOT S5 IS	439.99	13.00	5,719.87	Online only -	Block **
32	104240	1/16/08	559104	COFFEE, FOLGERS, 39OZ	12.99	1.00	12.99	in both books - blocked *	
33	99036	12/28/07	587134	FILTER, COFFEE, 500 COUNT	4.99	1.00	4.99	in both books - blocked *	
34	104150	1/16/08	587134	FILTER, COFFEE, 500 COUNT	4.99	1.00	4.99	in both books - blocked	
35	94708	12/12/07	587512	FILTER, COFFEE, 200 COUNT	3.59	1.00	3.59	in both books - blocked *	
36	104240	1/16/08	587512	FILTER, COFFEE, 200 COUNT	3.59	1.00	3.59	in both books - blocked	
37	94307	12/12/07	587602	COFFEE, MAKER, 60CUP, S/STEEL	149.99	1.00	149.99	in both books - blocked *	
38	92239	12/5/07	587602	COFFEE, MAKER, 60CUP, S/STEEL	149.99	1.00	149.99	in both books - blocked	
39	104240	1/16/08	587800	COFFEE, MAKER, THERMAL, 8CUP, BLK	57.99	1.00	57.99	in both books - blocked *	
40	108258	1/28/08	602930	MONITOR, LCD, WIDE, ACER, 19	229.99	20.00	4,599.80	Online only -	Block **
41	60840	7/4/07	611745	CAMERA, DGT, CYBERSHOT W80, SONY	249.99	3.00	749.97	Not available anylonger - was online only	

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

APPENDIX IX
2 OF 3

SCHEDULE OF UNBLOCKED ITEMS
PER SAMPLE TESTS

Item Number	Invoice Number	Invoice Date	Product SKU	Product Description	Invoice Price	Quantity of Items Sold	Total	Office Depot Research Notes	Office Depot Action
35	57941	6/21/07	616650	TV,LCD,23"TD,OLEVIA,32	675.00	3.00	2,025.00	online only -	Block **
36	50805	5/26/07	616675	TV,LCD,23"TD,OLEVIA,37	893.75	1.00	893.75	online only - blocked *	
	51914	5/31/07	616675	TV,LCD,23"TD,OLEVIA,37	893.75	4.00	3,575.00	online only - blocked	
	88513	11/20/07	616675	TV,LCD,23"TD,OLEVIA,37	899.99	1.00	899.99	online only - blocked	
37	62173	7/20/07	616685	TV,LCD,24"TD,OLEVIA,42	1,153.75	12.00	13,845.00	Online only -	Block **
38	108258	1/28/08	633770	TV,LCD,HD,37,VIEWSONIC	899.99	2.00	1,799.98	Online only -	Block **
39	69838	9/14/07	652945	PRINTER,OFFICEJET PRO,K5400	164.70	2.00	329.40	online only - blocked *	
40	91481	12/3/07	654483	CHOCOLATE CREAM PIRLOLINE,14OZ	6.99	1.00	6.99	in both books - blocked *	
41	102979	1/12/08	656355	LOLLIPOP'S BANKERS POPS	35.99	1.00	35.99	in both books - blocked *	
42	94708	12/12/07	672008	COFFEE,MAXWELL,HOUSE,42/15 OZ	34.03	2.00	68.06	in BSD13 and online -blocked *	
43	102979	1/12/08	691040	TWIZZLERS,STRAWBERRY,LICORICE	7.99	3.00	23.97	in both books - blocked *	
44	110436	2/5/08	694210	TV,LCD,HD,WSNTHGS,46,BLK	1,334.60	1.00	1,334.60	Not available anylonger - was online only	
45	68855	9/11/07	703592	CLEANER,DISINFECTANT,123OZ	5.89	36.00	212.04	In catalogs not blocked due	Block **
46	58003	6/21/07	725219	TV,HD,LCD,MAGNAVOX,32	719.99	2.00	1,439.98	Online only -	Block **
	60751	7/4/07	725219	TV,HD,LCD,MAGNAVOX,32	719.99	40.00	28,799.60	Online only -	Block **
	60750	7/4/07	725219	TV,HD,LCD,MAGNAVOX,32	719.99	20.00	14,399.80	Online only -	Block
47	102979	7/4/07	725219	TV,HD,LCD,MAGNAVOX,32	719.99	20.00	14,399.80	Online only -	Block
48	102979	1/12/08	823526	ASSORTED FRUIT FILL,5LB BAG	7.99	1.00	7.99	in both books - blocked *	
49	102979	1/12/08	827691	TOOTSIE ROLL 1 BAG,400PCS	6.99	1.00	6.99	in both books - blocked *	
50	100793	1/12/08	827695	CANDY,WONKA MIX UP	8.59	1.00	8.59	Online only - blocked *	
51	98329	1/17/08	880660	HEATER,UTILITY,HOLMES	35.99	40.00	1,439.60	in both books - blocked *	
52	104240	12/24/07	900154	COPIER,SHARP,1631	398.95	1.00	398.95	Wholesale item, in both catalog,	Block **
		1/16/08	919573	COFFEEMATE REGULAR CANISTER	1.99	1.00	1.99	online- then BSD15 -blocked *	
53	73709	9/27/07	967160	BOOMBOX,CD,AM/FM RADIO	36.76	24.00	882.24	online only-	Block **
54	17316	1/16/07	500811016	COPIER,DIGITAL,LASER,7020				online- then BSD15 -wholesale item - 3 in one machine: this is one of those open items that is listed as not mandatory -not blocked.	Block **
55	88965	11/21/07	950518331	COFFEE,FRNCH ROAST,25OZ,18/BX	199.99	2.00	399.98	in both books - restricted *	
56	108285	1/29/08	EVE-PLD23AE	FLASHLIGHT,PEN STYLE,LED	44.99	1.00	44.99	in both books -	
57	103379	1/31/08	HP DV2740SE	NTBK,DV2740SE,141,HP	8.40	20.00	168.00	Not available anylonger - was online only	
58	93939	12/11/07	HPM09XC5	AIR CONDITIONER,MOBILE,9000BTU	999.99	1.00	999.99	not able to produce a number for this,	
59	103494	1/15/08	OFX00004	FOOD,SUCKERS,1440PC,AST	619.99	1.00	619.99	in BSD13 now online only - blocked *	
60	87610	11/16/07	OFX00005	CANDY,ASSTD FRUIT SLICES	48.99	1.00	48.99	online only - blocked *	
61	87610	11/16/07	OFX00007	CANDY,HARD,SUGFREE FRUIT	7.29	1.00	7.29	online only - blocked *	
	96126	12/17/07	OFX00007	CANDY,HARD,SUGFREE FRUIT	10.49	1.00	10.49	online only - blocked *	
62	103494	1/15/08	OFX00013	CANDY,SOFT, CHEWY MIX	10.49	2.00	20.98	online only - blocked *	
63	87610	11/16/07	OFX00015	CANDY,BUTTERSOTCH DELIGH	7.29	2.00	14.58	online only - blocked *	
64	87610	11/16/07	OFX70005	FOOD,SPEARMINT,2LB/TUB	7.29	1.00	7.29	online only - blocked *	
65	87610	11/16/07	OFX70009	FOOD,FANCY MIX,2LB/TUB	7.29	1.00	7.29	online only - blocked *	
	96126	12/17/07	OFX70009	FOOD,FANCY MIX,2LB/TUB	7.29	4.00	29.16	online only - blocked *	
66	50974	5/28/07	S3867188	TV,LCD,23,LD-23SHTU,SHARP	7.29	2.00	14.58	online only - blocked	
					959.20	1.00	959.20	Not available anylonger - was online only	

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF UNBLOCKED ITEMS
PER SAMPLE TESTS

Item Number	Invoice Number	Invoice Date	Product SKU	Product Description	Invoice Price	Quantity of Items Sold	Total	Office Depot Research Notes	Office Depot Action
67	102753	1/11/08	S5775283	COPIER/PRINTER,DIGITAL,LASER	349.99	5.00	1,749.95	Online only -wholesale item - 3 in one machine: this is one of those open items that is listed as not mandatory -not blocked.	Block **
68	107783	1/25/08	S6161575	MONITOR,FLAT PANEL,22	249.99	15.00	3,749.85	Online only -	Block **
69	61703	7/14/07	S6496500	CAMERA,DIGITAL,STYLUS,770SW	412.39	14.00	5,773.46	Online only -	Block **
70	95552	12/14/07	S6508289	TV,LCD,20 ,SYLVANIA	299.99	2.00	599.98	Not available anylonger - was online only	
71	74511	10/1/07	S6515094	TV/CR/DVD COMBO,20	299.99	1.00	299.99	Online only -	Block **
72	47171	5/15/07	S6530908	CAMERA,DIGITAL,A560,CANON	217.36	2.00	434.72	Not available anylonger - was online only	
							124,393.17		

* - Forty items blocked by Office Depot subsequent to original audit testing.

** - Twenty-one items blocked by Office Depot in July 2008 during audit fieldwork.

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF RESTRICTED PRODUCTS BY CATEGORY
AS OF JULY 21, 2008
(Online Search)

Category	Number of Items Available for Purchase	Number of Items Blocked from Purchase
Digital Cameras	39	4
Coffee Makers	23	23
Laser Printers	78	45
Monitors	57	3
Refrigerators	5	3
TV/DVD/VCR Combos	4	0
LCD & Flat Panel Televisions	16	4
Small Appliances (Microwaves, Toasters, Toaster Ovens)	7	7
Copiers	10	3
Two-way Radios	8	0

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF INCORRECT PRICING
THROUGH NOVEMBER 30, 2006¹

	Total	Per Audit Over and Under Charges	Error Percentage
Unique Product SKUs	3,629	1,945	53%
Transactions	20,402	5,542	27%
Amount	\$1,117,886	\$46,591 ²	4%

¹ - First orders were placed under pilot purchasing on September 20, 2006, with widespread purchasing beginning after general agency training that started on October 11, 2006.

² - Total is made-up of \$28,306 in overcharges and \$18,285 in undercharges.

**OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT**

**SCHEDULE OF PER ITEM
OVERCHARGES AND UNDERCHARGES
(EXAMPLES ONLY)**

Item Number	SKU Number	Product Description	Invoice Price	Catalog Price *	Difference (Undercharge)
1	120675	Pens, medpt, rsvp, 12pk, blue	\$4.12	\$4.15	(\$0.03)
2	156466	Protector, Sht, Nonstick 100/bx	\$8.49	\$6.59	\$1.90
3	157942	Protector, Sht, disk, 10/pk	\$9.79	\$7.49	\$2.30
4	195216	Filter, prvcy, 3M™ 19-21, Blk	\$567.99	\$369.19	\$198.80
5	196311	Tray, Drawer, 7 CPT, 16X9X1 Blk	\$2.79	\$2.93	(\$0.14)
6	199570	Box, Stor, Econ Letter/Leg	\$16.37	\$16.89	(\$0.52)
7	285581	Post-it Note, Lined 3X3, 6/PK, NE	\$5.17	\$5.45	(\$0.28)
8	306779	Pencil, Golf, 35, 12 PKS of 12, YW	\$6.69	\$4.41	\$2.28
9	375667	Scissors, Bent, LH/RH, 8, Black	\$2.70	\$2.09	\$0.61
10	440288	Ink Cartridge, Black, 94, HP	\$19.99	\$14.99	\$5.00
11	440520	Ink Cartridge, 96, Black, HP	\$29.99	\$22.49	\$7.50
12	581174	Folder, LTR, 1/3C, 100/BX, ASST1	\$12.99	\$9.79	\$3.20
13	582304	Steno, DKT, Gregg, 144PG, CAN	\$2.09	\$2.23	(\$0.14)
14	583726	Folder, LTR, 11 PT, 1/3C, 100/Bx	\$12.99	\$9.79	\$3.20
15	597862	Pad, Easel, 2/CT, Recycled	\$18.05	\$18.19	(\$0.14)
16	598105	Gluestick, 26oz., 18/PK	\$7.41	\$7.20	\$0.21
17	601372	Riser, Monitor, LC, Flat PNL, Blk	\$34.44	\$32.43	\$2.01
18	803734	Folder, Class, LTR, 2DIV, 5/PK, Blu	\$19.39	\$14.69	\$4.70
19	936054	Folder, PSBD, RECY, 6PRT/2CTR, GRY	\$3.99	\$2.93	\$1.06
20	940650	Paper, CPY, RCY, 85x11, 20, 104BR	\$22.49	\$24.37	(\$1.88)
21	980368	Binder, 3, D Ring, White	\$5.52	\$5.73	(\$0.21)
22	980813	Punch, Electric, 3 Hole, Platinum	\$64.94	\$66.74	(\$1.80)

* - Price that should have been charged for the item.

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF THE APPLICATION
OF INCORRECT CATEGORY BASKET PERCENTAGES

Item #	Product SKU #	Product Description	Price Before Discount	Correct Category Basket Discount	Catalog Price <a>	Category Basket Discount Applied	Invoice Price 	Per Item Difference (Undercharge) <b-a>
1	102574	PAPER FASTENER 1 SET 50BX	\$1.69	30%	\$1.18	25%	\$1.27	\$0.08
2	102582	PAPER FASTENER 1 BASE 100BX	\$2.79	30%	\$1.95	25%	\$2.09	\$0.14
3	613211	LABEL,OD,REINFORCEMENT	\$0.99	30%	\$0.69	25%	\$0.74	\$0.05
4	668984	CLIP,BINDER,VARIETY,OD,PK90	\$6.99	30%	\$4.89	25%	\$5.24	\$0.35
5	851915	PRONG FASTENER	\$4.30	30%	\$3.01	25%	\$3.23	\$0.22
6	142148	LABEL,POSTAGMTR,181X6,60PK,WH	\$6.99	30%	\$4.89	25%	\$5.24	\$0.35
7	683193	LABEL,IJ,SHIP,WHT,150CT	\$11.99	30%	\$8.39	25%	\$8.99	\$0.60
8	332820	PHONE,CRDLS,ANALOG,58GHZ,BLK	\$24.99	30%	\$17.49	25%	\$18.74	\$1.25
9	574558	LABEL,IJ,ADDR,CLEAR,750CT	\$24.99	30%	\$17.49	25%	\$18.74	\$1.25
10	112995	LABEL,P/S,1/4 DIA,GRN,450/PK	\$2.39	30%	\$1.67	25%	\$1.79	\$0.12
11	199888	BINDER CLIPS,SMALL,BLACK,36PK	\$2.49	30%	\$1.74	25%	\$1.87	\$0.12
12	920581	SHEETS,LAMINATING,SLFADH,50PK	\$22.99	40%	\$13.79	30%	\$16.09	\$2.30
13	708208	ORGANIZER,LITERATURE,12CMP,GRY	\$52.99	35%	\$34.44	30%	\$37.09	\$2.65
14	825190	CLIP,BINDER,MED,125IN,12/PK	\$11.99	30%	\$8.39	25%	\$8.99	\$0.60
15	450280	LABELER,PT-9600,ELECTRONIC SYS	\$564.99	30%	\$395.49	25%	\$423.74	\$28.25
16	820216	LABELER,PT1400,HANDHELD	\$104.99	30%	\$73.49	25%	\$78.74	\$5.25
17	248323	PHONE,3 HANDSETS,58GHZ	\$69.99	30%	\$48.99	25%	\$52.49	\$3.50
18	452377	FILM,LAMINATING,REPO,16 X10	\$15.99	40%	\$9.59	30%	\$11.19	\$1.60
19	628066	SHEETS,LAMINATING,SLFADH,10PK	\$8.79	40%	\$5.27	30%	\$6.15	\$0.88
20	431793	PHONE,24GHZ,W/ CALLER ID	\$17.99	30%	\$12.59	25%	\$13.49	\$0.90
21	346726	FASTENER,BASE,3 CAP,COMPLT	\$9.99	30%	\$6.99	25%	\$7.49	\$0.50
22	909713	RUBBERBAND,PCG,117B,7,1	\$6.99	30%	\$4.89	25%	\$5.24	\$0.35
23	191304	LABEL,DOT,P,S,75IN,MUL 1008CT	\$5.79	30%	\$4.05	25%	\$4.34	\$0.29
24	111062	LABEL,P/S,1 X3,RD GLO,2C/PK	\$5.19	30%	\$3.63	25%	\$3.89	\$0.26
25	855910	RUBBERBANDS,54,1LB	\$4.59	30%	\$3.21	25%	\$3.44	\$0.23
26	947671	SEALS,2 DIA,GOLD,42/PK	\$3.99	30%	\$2.79	25%	\$2.99	\$0.20
27	199840	FASTENER,RH,1 1/2 ,BX100	\$3.29	30%	\$2.30	25%	\$2.47	\$0.16
28	964478	PAD,FINGER,AMBER,PARR,SIZE 11	\$2.19	30%	\$1.53	25%	\$1.64	\$0.11
29	909390	CLIP,BULL DOG,2,MAGNETIC	\$1.39	30%	\$0.97	25%	\$1.04	\$0.07
30	402139	FILE,STOR,LTR/LGL,ECONO,12/CT	\$29.99	30%	\$20.99	35%	\$19.49	(\$1.50)
31	912115	LABEL,PRIVATE,OD MULTI,10 TAB	\$2.99	30%	\$2.09	40%	\$1.79	(\$0.30)
32	164925	BOX,STRGE,OD,NBE,BINDER,2PK	\$14.99	30%	\$10.49	35%	\$9.74	(\$0.75)
33	940346	BOX,STORAGE,RECY,LTR/LGL	\$4.99	30%	\$3.49	35%	\$3.24	(\$0.25)
34	336530	CUBES,STORAGE,2-DRAWER,WOOD	\$13.99	30%	\$9.79	35%	\$9.09	(\$0.70)

SCHEDULE OF DISCONTINUED CORE ITEMS
SOLD TO CONTRACT CUSTOMERS

Discontinued SKU#	Product Description	Number of Transactions (After the Item Was Replaced by New Item)	Price Charged <a>	Quantity 	Amount Charged <c=axb>	Discontinued Core Price with 2% Vol. Disc. if Applicable <d>	Quantity <e>	Amount at Core Price <f=dxe>	Difference (Overcharges) <c-f>
1	495499 OIC® Pushpins	22	\$1.19	42	\$49.98	\$0.09	185	\$16.65	
		1	\$0.09	5	\$0.45				
		6	\$3.45	10	\$34.50				
		14	\$3.54	60	\$212.40				
		19	\$3.76	68	\$255.68				
	Sub-Total	62		185	\$553.01		185	\$16.65	\$536.36
2	498022 OIC® Ideal Clamps	22	\$1.29	391	\$504.39	\$0.10	1026	\$102.60	
		4	\$1.39	75	\$104.25				
		6	\$1.53	222	\$339.66				
		8	\$1.65	338	\$557.70				
	Sub-Total	40		1026	\$1,506.00		1026	\$102.60	\$1,403.40
3	983197 ACME Scissors	12	\$3.79	115	\$435.85	\$0.15	286	\$42.90	
		11	\$2.88	59	\$169.92				
		15	\$3.55	112	\$397.60				
	Sub-Total	38		286	\$1,003.37		286	\$42.90	\$960.47
4	203885 Carter's® Stamp Pad Inkers	6	\$1.64	26	\$42.64	\$0.17	63	\$10.71	
		5	\$1.85	37	\$68.45				
	Sub-Total	11		63	\$111.09		63	\$10.71	\$100.38
5	912410 Sanford® Stamp Pad Inker	8	\$1.75	63	\$110.25	\$0.17	63	\$10.71	\$99.54
6	912428 Sanford® Ink Refill	4	\$1.75	33	\$57.75	\$0.17	33	\$5.61	\$52.14

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

SCHEDULE OF DISCONTINUED CORE ITEMS
SOLD TO CONTRACT CUSTOMERS

Discontinued SKU#	Product Description	Number of Transactions (After the Item Was Replaced by New Item)	Price Charged <a>	Quantity 	Amount Charged <c=axe>	Discontinued Core Price with 2% Vol. Disc. if Applicable <d>	Quantity <e>	Amount at Core Price <f=dx>	Difference (Overcharges) <g>
7	910307	Saunders Uhu® Glue Sticks	1	6	\$8.34	\$0.21	6	\$1.26	
			4	890	\$1,958.00	\$0.22	840	\$184.80	
	Sub-Total			896		\$0.21	50	\$10.50	
					\$1,966.34		896	\$196.56	\$1,769.78
8	936542	OIC® Fastener Sets	15	171	\$630.99	\$0.21	142	\$29.82	
			6	38	\$217.74	\$0.22	180	\$39.60	
			10	113	\$680.26	\$0.21	277	\$58.17	
			9	277	\$1,750.64				
	Sub-Total		40	599	\$3,279.63		599	\$127.59	\$3,152.04
9	525506	Pentel Hi-Polymer® Lead	5	103	\$167.89	\$0.25	6	\$1.50	
						\$0.26	10	\$2.60	
			5	103	\$167.89	\$0.25	87	\$21.75	
	Sub-Total						103	\$25.85	\$142.04
10	258038	Paper Mate® Correction Pen	2	202	\$462.58	\$0.26	200	\$52.00	
			10	1070	\$2,600.10	\$0.27	1063	\$287.01	
			12	1272	\$3,062.68	\$0.26	9	\$2.34	
	Sub-Total						1272	\$341.35	\$2,721.33
11	503722	MEAD Notebook Filler Paper	1	100	\$463.00	\$0.28	100	\$28.00	\$435.00
12	550624	Carter's® Stamp Pad, Black	4	20	\$53.80	\$0.28	20	\$5.60	
			8	40	\$160.80	\$0.29	40	\$11.60	
	Sub-Total		12	60	\$214.60		60	\$17.20	\$197.40

SCHEDULE OF DISCONTINUED CORE ITEMS
SOLD TO CONTRACT CUSTOMERS

Discontinued SKU#	Product Description	Number of Transactions (After the Item Was Replaced by New Item)	Price Charged <a>	Quantity 	Amount Charged <c=axb>	Discontinued Core Price with 2% Vol. Disc. if Applicable <d>	Quantity <e>	Amount at Core Price <f=dxe>	Difference (Overcharges) <c-f>
13 912352	Carter's® Stamp Pad, Blue	1	\$4.02	5	\$20.10	\$0.29	5	\$1.45	\$18.65
14 912360	Carter's® Stamp Pad, Red	2	\$2.69	6	\$16.14	\$0.28	18	\$5.04	
Sub-Total		1	\$4.02	12	\$48.24				
		3		18	\$64.38		18	\$5.04	\$59.34
15 103481	Avery® Dividers	14	\$3.39	334	\$1,132.26	\$0.32	183	\$58.56	
Sub-Total		25	\$3.86	407	\$1,571.02	\$0.33	467	\$154.11	
		39		741	\$2,703.28	\$0.32	91	\$29.12	
							741	\$241.79	\$2,461.49
16 938134	Lee® Fingertip Moisteners	11	\$3.16	254	\$802.64	\$0.32	199	\$63.68	
Sub-Total		3	\$3.27	13	\$42.51	\$0.33	55	\$18.15	
		14		267	\$845.15	\$0.32	13	\$4.16	
							267	\$85.99	\$759.16
17 685610	Post-it® Flags	6	\$2.82	410	\$1,156.20	\$0.35	346	\$121.10	
Sub-Total		28	\$2.42	403	\$975.26	\$0.36	467	\$168.12	
		34		813	\$2,131.46		813	\$289.22	\$1,842.24
18 469210	Rubbermaid® Chairmats (Standard Lip)	1	\$20.79	1	\$20.79	\$1.80	1	\$1.80	
Sub-Total		8	\$48.13	26	\$1,251.38	\$1.84	21	\$38.64	
		9		27	\$1,272.17	\$1.80	5	\$9.00	
							27	\$49.44	\$1,222.73
19 469229	Rubbermaid® Chairmats (Wide Lip)	8	\$22.74	10	\$227.40	\$2.36	10	\$23.60	\$203.80

APPENDIX XIV
4 OF 4

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**SCHEDULE OF DISCONTINUED AND NEW CORE ITEMS
SOLD TO CONTRACT CUSTOMERS**

Discontinued Core Items				Replacement Core Items			
Discontinued SKU#	Product Description	Number of Transactions <a>	Quantity Ordered 	New SKU#	Product Description	Number of Transactions <c>	Quantity Ordered <d>
1	495499 OIC® Pushpins	62	185	825265	Office Depot® Brand Pushpins	143	654
2	498022 OIC® Ideal Clamps	40	1026	199856	Office Depot® Brand Butterfly Clamps	55	428
3	983197 ACME Scissors	38	286	375667	Office Depot® Brand Scissors	579	6866
4	203885 Carter's® Stamp Pad Inkers	11	63	421433	Office Depot® Brand Stamp Pad Inkers, Black	50	398
5	912410 Sanford® Stamp Pad Ink	8	63	421517	Office Depot® Brand Stamp Pad Inkers, Red	35	206
6	912428 Sanford® Ink Refill	4	33	421475	Office Depot® Brand Stamp Pad Inkers, Blue	8	25
7	910307 Saunders Uhu® Glue Sticks	5	896	571031	Office Depot® Brand Glue Sticks	121	2557
8	936542 OIC® Fastener Sets	40	599	102624	Office Depot® Brand Paper Fasteners	101	1122
9	525506 Pentel Hi-Polymer® Lead	5	103	139640	Foray® Lead Refills	273	2194
10	258038 Paper Mate® Correction Pen	12	1272	576025	Liquid Paper® Correction Pen	215	1650
11	503722 MEAD Notebook Filler Paper	1	100	932749	Office Depot® Brand Recycled Filler Paper	35	4313
12	550624 Carter's® Stamp Pad, Black	12	60	420852	Office Depot® Brand Gel Pads, Black	61	468
13	912352 Carter's® Stamp Pad, Blue	1	5	420894	Office Depot® Brand Gel Pads, Blue	21	55
14	912360 Carter's® Stamp Pad, Red	3	18	420873	Office Depot® Brand Gel Pads, Red	48	346
15	103481 Avery® Dividers	39	741	574698	Office Depot® Brand Dividers	229	3440
16	938134 Lee® Fingertip Moisteners	14	267	458554	Office Depot® Brand Fingertip Moisteners	222	1437
17	685610 Post-it® Flags	34	813	452409	Post-it® Flags	527	9142
18	469210 Rubbermaid® Chairmats (Standard Lip)	9	27	475676	Office Depot® Brand Chair Mat (Standard Lip)	129	699
19	469229 Rubbermaid® Chairmats (Wide Lip)	8	10	475823	Office Depot® Brand Chair Mat (Wide Lip)	143	712
20	469238 Rubbermaid® Chairmats (No Lip)	7	15	478028	Office Depot® Brand Chair Mat (No Lip)	216	888
21	908830 Swingline® Paper Punch	27	81	636040	OIC 2-3 Hole Adjustable Punch	258	1140
	Total		380			3469	38740

OFFICE DEPOT, INC
CONTRACT COMPLIANCE AUDIT

APPENDIX XVI

**SCHEDULE OF PRODUCTS NOT LOCATED
BASED ON KEY WORD SEARCHES**

Item Number	Product SKU Number	Product Description	Number of Transactions	Quantity of Items Sold	Total Sales
1	685537*	Red Tape Flags 1/pk**	114	6,551	\$2,329.61
2	685594*	Green Tape Flags 1/pk**	76	3,697	\$1,316.70
3	685636*	Purple Tape Flags 1/pk**	1	50	\$18.00
4	685602*	Orange Tape Flags 1/pk**	0	0	\$0.00
5	704275*	3x4 Yellow Post-It Note	46	280	\$776.12
6	313403*	Dividers, BLK Leather, 1-31	39	451	\$236.56
7	220218*	Archive Storage Box	181	1,446	\$9,124.24
8	635996*	Power Strip	27	161	\$442.71
9	538903	Plastic Clipboard, Blue	25	79	\$36.67
10	473250	Index Card, Green	9	49	\$27.83
11	690961	Roll, Add225x150, Recycle	13	43	\$65.93
12	835288	Felt-Tip Pen, BLK	8	235	\$1,235.94
13	696401	Lead, 5mm, Super Fine	17	1,279	\$221.08
TOTAL			556	14,321	\$15,831.39

* These eight examples were provided for Office Depot's review and comment during our fieldwork.

** The equivalent non-contract two pack tape flags were often purchased (See Appendix VIII).

BIDDER DECLARATION

ATTACHMENT 2

1. Prime bidder information (Review attached Bidder Declaration Instructions prior to completion of this form):
- a. Identify current California certification(s) (MB, SB, DB/NVSA, DVBE): _____ or None ☒ (If "None," go to Item #2)

b. Will subcontractors be used for this contract? Yes ☐ No ☒ (If yes, indicate the distinct element of work your firm will perform in this contract e.g., list the proposed products produced by your firm, state if your firm owns the transportation vehicles that will deliver the products to the State, identify which solicited services your firm will perform, etc.). Use additional sheets, as necessary.

- c. If you are a California certified DVBE: (1) Are you a broker or agent? Yes ☐ No ☐
(2) If the contract includes equipment rental, does your company own at least 51% of the equipment provided in this contract (quantity and value)? Yes ☐ No ☐ N/A

2. If no subcontractors will be used, skip to certification below. Otherwise, list all subcontractors for this contract. (Attach additional pages if necessary):

Subcontractor Name, Contact Person, Phone Number & Fax Number	Subcontractor Address & Email Address	CA Certification (MB, SB, DVBE or None)	Work performed or goods provided for this contract	Corresponding % of bid price	Good Standing?	51% Rental?
Hottman Technologies Gary Hotman 916-782-5627 fax 916-782-3821	Suite # 8 1800 Vernon St Roseville CA 95678 gary@hottmantech.com	DVBE SB	See attached * page 4 of 4	12%	Yes	N/A
Waldeck's Clifford Waldeck 415-981-3381 fax 415-981-2543	500 Washington St San Francisco, CA 94111 cliff@waldeck.com	SB	See attached * page 4 of 4	10%	Yes	N/A
The Primary Source Bonnie Cerkeski 916-858-2314 fax 916-858-2338	11367 Trade Center Suite 40 Rancho Cordova, CA 95742 theprimarysource@msn.com	SB	See attached * page 4 of 4	12%	Yes	N/A

CERTIFICATION: By signing the bid response, I certify under penalty of perjury that the information provided is true and correct.

BIDDER DECLARATION

ATTACHMENT 2

1. Prime bidder information (Review attached Bidder Declaration Instructions prior to completion of this form):

- a. Identify current California certification(s) (MB, SB, SB/NVSA, DVBE): _____ or None ☒ (If "None," go to Item #2)
- b. Will subcontractors be used for this contract? Yes ☐ No ☐ (If yes, indicate the distinct element of work your firm will perform in this contract e.g., list the proposed products produced by your firm, state if your firm owns the transportation vehicles that will deliver the products to the State, identify which solicited services your firm will perform, etc.). Use additional sheets, as necessary.

- c. If you are a California certified DVBE: (1) Are you a broker or agent? Yes ☐ No ☐
(2) If the contract includes equipment rental, does your company own at least 51% of the equipment provided in this contract (quantity and value)? Yes ☐ No ☐ N/A

2. If no subcontractors will be used, skip to certification below. Otherwise, list all subcontractors for this contract. (Attach additional pages if necessary):

Subcontractor Name, Contact Person, Phone Number & Fax Number	Subcontractor Address & Email Address	CA Certification (MB, SB, DVBE or None)	Work performed or goods provided for this contract	Corresponding % of bid price	Good Standing?	51% Rental?
DVBE Tech Mark Eckert 916-960-0116 fax 916-544-0017	5060 Sunrise Blvd #A4 Four Oaks CA 95028 Mark@dubetech.com	DVBE SB	see attached page 4 of 4	12.07%	Yes	N/A
SLM Contract furniture Tim Manoney 858-277-9700 fax 858-277-9702	7730 Opportunity Rd Ste G San Diego CA 92111 tim@s/mcf.com	DVBE SB	see attached page 4 of 4	10%	Yes	N/A
Cofis Technologies 4231 Pacific St #3 Eric Hoffman 916-652-4418 fax 916-652-4419	4231 Pacific St #3 Rocklin CA 95677 eric@cofis.com	SB	see attached page 4 of 4	12.07%	Yes	N/A

Agreement # 1S-06-75-55

CERTIFICATION: By signing the bid response, I certify under penalty of perjury that the information provided is true and correct.

* see attached page 4 of 4

JGS-55206

8

EXHIBIT 8.3

Solicitation Number

State of California—Department of General Services, Procurement Division
GSPO-05-105 (EST 8/05)

ATTACHMENT A

BIDDER DECLARATION

ATTACHMENT 2

1. Prime bidder information (Review attached Bidder Declaration Instructions prior to completion of this form):

- a. Identify current California certification(s) (MB, SB, SB/NV5A, DVBE): None or None (If "None," go to Item #2)
- b. Will subcontractors be used for this contract? Yes No (If yes, indicate the distinct element of work your firm will perform in this contract e.g., list the proposed products produced by your firm, state if your firm owns the transportation vehicles that will deliver the products to the State, identify which solicited services your firm will perform, etc.). Use additional sheets, as necessary.

c. If you are a California certified DVBE:

- (1) Are you a broker or agent? Yes No
- (2) If the contract includes equipment rental, does your company own at least 51% of the equipment provided in this contract (quantity and value)? Yes No N/A

2. If no subcontractors will be used, skip to certification below. Otherwise, list all subcontractors for this contract. (Attach additional pages if necessary):

Subcontractor Name, Contact Person, Phone Number & Fax Number	Subcontractor Address & Email Address	CA Certification (MB, SB, DVBE or None)	Work performed or goods provided for this contract	Corresponding % of bid price	Good Standing?	51% Rental?
Micro League Inc James Shipp 310-450-2708 310-452-1294	12436 Santa Monica Ave Los Angeles CA 90025 james@microleague.com	SB	See attached * page 4 of 4	10%	Yes	N/A
Dafra Inc. dba THE VERY LAST WORD Shawn Cobb 800-227-3993 408-341-8808	50 E. Hamilton Ave Ste 280 Campbell, CA 95008 shawnc@theverylastword.com	SB	See attached * page 4 of 4	10%	Yes	N/A
The Martini Group Glenn Latona 714-210-2500 949-266-9998	17821 E. 17th St Ste 145 Tustin, CA 92780 glatona@martinigroup.com	SB	See attached * page 4 of 4	10%	Yes	N/A

Agreement # 1S-06-75-55

CONTRACT NO. 1S-06-75-55
(EXTRACTS)APPENDIX XVII
Page 3 of 13

CERTIFICATION: By signing the bid response, I certify under penalty of perjury that the information provided is true and correct.

See attached page 4 of 4

Page 3 of 4

CONTRACT NO. 1S-06-75-55
(EXTRACTS)

ATTACHMENT 2

Agreement # 1S-06-75-55

Bidder Declaration RFP DGS-55206

Work Performed or Goods Provided for this Contract by SB/DVBE Subcontractors

Hoffman Technologies, Waldeck's, The Primary Source, DVBE Tech, SLM Contract Furniture, Cufis Technologies, Micro League, The Very Last Word, and the Martini Group are value added resellers of office products who have qualified to participate in a SB/DVBE Consortium managed by Office Depot in support of the State office supply contract. The Consortium will resell the *entire product line* to the State; the only time Consortium members will not be the reseller is when the State goes directly to an Office Depot retail store to make a purchase.

Normally, Office Depot would hire 10-12 selling resources (employees) to fulfill to support a new contract of \$25 million as our current "load" is \$1.7 million per selling resource. Office Depot proposes to use California certified small business and disabled veteran business enterprises to execute distinct work of the contract instead of hiring additional employees. The use of Consortium members will be seamless to the State agencies; one only needs to contact Office Depot for office supply contract needs.

Office Depot will manage the contract, wholesale the items to the Consortium members, and provide for logistics in both distribution and order entry. Consortium members function as authorized value added resellers to the State under the Office Supply contract and all invoicing will reflect both the contract number and price. Consortium members will be assigned State accounts specific to their geographic territory, and it is the intent of Office Depot to have Consortium members to cover the State in its entirety for all delivery orders. Consortium members actually take possession of the goods they resell and are invoiced by Office Depot for the wholesale value of the goods. The State will remit payments to a specific lockbox established for this contract for Consortium members and the lockbox bank will remit payment to the appropriate Consortium member. Consortium members will manage and control specific activities that are normal in their everyday business as office products resellers in execution of distinct work of the contract to include:

- Capital management, Accounts Receivables & Invoicing as per 5.7
- User Account Set-Up as per 5.3.1a within their geographic account base
- E-services/Electronic Order fulfillment as per 5.3.1b in their account base
- Distribution of Hard Copy Catalogs as per 5.4.1 and 5.4.2 to the account base
- Order acknowledgement as per 5.5.6 for their accounts
- Management of Customer Contact as per 5.6.1 Delivery Schedules
- Out-of-Stock Notification & Remedy as per 5.6.6 for their orders
- Returns & Credit as per 5.6.7 and 5.6.9
- Agency site visit when required for Customer Service or Problem Resolution
- Participation in Problem Resolution Forum 5.10.5 and Joint Outreach 5.10.6
- Dedicated Service Rep assigned to agencies as per 5.10.2
- Active and ongoing participation in Implementation, Training and Outreach

RFP DGS-55206

Section 8

EXHIBIT 8.5

STATE OF CALIFORNIA-- DEPARTMENT OF GENERAL SERVICES PROCUREMENT DIVISION

DISABLED VETERAN BUSINESS ENTERPRISE DECLARATIONS

Agreement # 1S-06-75-55

STD. B-43 (Rev. 11/2005)

INSTRUCTIONS: The disabled veteran (DV) owner(s) and DV manager(s) of the Disabled Veteran Business Enterprise (DVBE) must complete this declaration when a DVBE contractor or subcontractor will provide materials, supplies, services or equipment [Military and Veterans Code Section 999.2]. Violations are misdemeanors and punishable by imprisonment or fine and violators are liable for civil penalties. All signatures are made under penalty of perjury.

SECTION 1

Name of certified DVBE: Hoffman Technologies, Inc. DVBE Ref. Number: 0015129

PO/Contract Description (materials/supplies/services/equipment): Office Products

Solicitation/Contract Number: RFP DGS 55206 SCPRS Ref. Number: _____
(FOR STATE USE ONLY)

SECTION 2

APPLIES TO ALL DVBEs. Check only one box in Section 2 and provide original signatures.

☒ I (we) declare that the DVBE is not a broker or agent, as defined in Military and Veterans Code Section 999.2 (b), of materials, supplies, services or equipment listed above. Also, complete Section 3 below if renting equipment.

☐ Pursuant to Military and Veterans Code Section 999.2 (f), I (we) declare that the DVBE is a broker or agent for the principal(s) listed below or on an attached sheet(s). (Pursuant to Military and Veterans Code 999.2 (e), State funds expended for equipment rented from equipment brokers pursuant to contracts awarded under this section shall not be credited toward the 3-percent DVBE participation goal.)

All DV owners and managers of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

Gary C. Hoffman

(Printed Name of DV Owner/Manager)

(Signature of DV Owner/Manager)

(Date Signed) May 1, 2006

(Printed Name of DV Owner/Manager)

(Signature of DV Owner/Manager)

(Date Signed)

Firm/Principal for whom the DVBE is acting as a broker or agent: _____
(If more than one firm, list on extra sheets.) (Print or Type Name)

Firm/Principal Phone: _____ Address: _____

SECTION 3

APPLIES TO ALL DVBEs THAT RENT EQUIPMENT AND DECLARE THE DVBE IS NOT A BROKER.

☐ Pursuant to Military and Veterans Code Section 999.2 (c), (d) and (g), I am (we are) the DV(s) with at least 51% ownership of the DVBE, or a DV manager(s) of the DVBE. The DVBE maintains certification requirements in accordance with Military and Veterans Code Section 999 et. seq.

☐ The undersigned owner(s) own(s) at least 51% of the quantity and value of each piece of equipment that will be rented for use in the contract identified above. I (we), the DV owners of the equipment, have submitted to the administering agency my (our) personal federal tax return(s) at time of certification and annually thereafter as defined in Military and Veterans Code 999.2, subsections (c) and (g). Failure by the disabled veteran equipment owner(s) to submit their personal federal tax return(s) to the administering agency as defined in Military and Veterans Code 999.2, subsections (c) and (g), will result in the DVBE being deemed an equipment broker.

Disabled Veteran Owner(s) of the DVBE (attach additional pages with signature blocks for each person to sign):

(Printed Name)

(Signature)

(Date Signed)

(Address of Owner)

(Telephone Number of Owner)

(Tax Identification Number of Owner)

Disabled Veteran Manager(s) of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

(Printed Name of DV Manager)

(Signature of DV Manager)

(Date Signed)

(EXTRACTS)

RFP DGS-55206

Section 8

EXHIBIT 8.5

STATE OF CALIFORNIA - DEPARTMENT OF GENERAL SERVICES PROCUREMENT DIVISION

DISABLED VETERAN BUSINESS ENTERPRISE DECLARATIONS

STG, 043 (Rev. 1/1/2003)

ATTACHMENT 2

Agreement # 1S-06-75-55

Instructions: The disabled veteran (DV) owner(s) and DV manager(s) of the Disabled Veteran Business Enterprise (DVBE) must complete this declaration when a DVBE contractor or subcontractor will provide materials, supplies, services or equipment [Military and Veterans Code Section 999.2]. Violations are misdemeanors and punishable by imprisonment or fine and violators are liable for civil penalties. All signatures are made under penalty of perjury.

SECTION 1

Name of certified DVBE: SLM CONTRACT FURNITURE, INC DVBE Ref. Number: 0034124
 PO/Contract Description (materials/supplies/services/equipment): OFFICE SUPPLIES, OFFICE FURNITURE
 Solicitation/Contract Number: RFP DGS 55206 SCPRS Ref. Number: _____
 (FOR STATE USE ONLY)

SECTION 2

APPLIES TO ALL DVBEs. Check only one box in Section 2 and provide original signatures.

- ☒ I (we) declare that the DVBE is not a broker or agent, as defined in Military and Veterans Code Section 999.2 (b), of materials, supplies, services or equipment listed above. Also, complete Section 3 below if renting equipment.
- ☐ Pursuant to Military and Veterans Code Section 999.2 (f), I (we) declare that the DVBE is a broker or agent for the principal(s) listed below or on an attached sheet(s). (Pursuant to Military and Veterans Code 999.2 (e), State funds expended for equipment rented from equipment brokers pursuant to contracts awarded under this section shall not be credited toward the 3-percent DVBE participation goal.)

All DV owners and managers of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

Timothy MARONEY
 (Printed Name of DV Owner/Manager)

Timothy Maroney
 (Signature of DV Owner/Manager)

5-2-06
 (Date Signed)

(Printed Name of DV Owner/Manager)

(Signature of DV Owner/Manager)

(Date Signed)

Firm/Principal for whom the DVBE is acting as a broker or agent:
 (If more than one firm, list on extra sheets.)

(Print or Type Name)

Firm/Principal Phone: _____ Address: _____

SECTION 3

APPLIES TO ALL DVBEs THAT RENT EQUIPMENT AND DECLARE THE DVBE IS NOT A BROKER.

- ☐ Pursuant to Military and Veterans Code Section 999.2 (c), (d) and (g), I am (we are) the DV(s) with at least 51% ownership of the DVBE, or a DV manager(s) of the DVBE. The DVBE maintains certification requirements in accordance with Military and Veterans Code Section 999 et. seq.
- ☐ The undersigned owner(s) own(s) at least 51% of the quantity and value of each piece of equipment that will be rented for use in the contract identified above. I (we), the DV owners of the equipment, have submitted to the administering agency my (our) personal federal tax return(s) at time of certification and annually thereafter as defined in Military and Veterans Code 999.2, subsections (c) and (g). Failure by the disabled veteran equipment owner(s) to submit their personal federal tax return(s) to the administering agency as defined in Military and Veterans Code 999.2, subsections (c) and (g), will result in the DVBE being deemed an equipment broker.

Disabled Veteran Owner(s) of the DVBE (attach additional pages with signature blocks for each person to sign):

(Printed Name)

(Signature)

(Date Signed)

(Address of Owner)

(Telephone Number of Owner)

(Tax Identification Number of Owner)

Disabled Veteran Manager(s) of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

(Printed Name of DV Manager)

(Signature of DV Manager)

(Date Signed)

RFP DGS-55206

Section 8

EXHIBIT B.5

STATE OF CALIFORNIA - DEPARTMENT OF GENERAL SERVICES PROCUREMENT DIVISION

DISABLED VETERAN BUSINESS ENTERPRISE DECLARATION Agreement # 1S-06-75-55

BDL 043 (Rev. 11/2006)

Instructions: The disabled veteran (DV) owner(s) and DV manager(s) of the Disabled Veteran Business Enterprise (DVBE) must complete this declaration when a DVBE contractor or subcontractor will provide materials, supplies, services or equipment [Military and Veterans Code Section 999.2]. Violations are misdemeanors and punishable by imprisonment or fine and violators are liable for civil penalties. All signatures are made under penalty of perjury.

SECTION 1

Name of certified DVBE: DVBE Tech Inc. DVBE Ref. Number: 21556
PO/Contract Description (materials/supplies/services/equipment): Office Supplies
Solicitation/Contract Number: DGS-55206 SCPRS Ref. Number: _____
(FOR STATE USE ONLY)

SECTION 2

APPLIES TO ALL DVBEs. Check only one box in Section 2 and provide original signatures.

- ☒ I (we) declare that the DVBE is not a broker or agent, as defined in Military and Veterans Code Section 999.2 (b), of materials, supplies, services or equipment listed above. Also, complete Section 3 below if renting equipment.
- ☐ Pursuant to Military and Veterans Code Section 999.2 (f), I (we) declare that the DVBE is a broker or agent for the principal(s) listed below or on an attached sheet(s). (Pursuant to Military and Veterans Code 999.2 (e); State funds expended for equipment rented from equipment brokers pursuant to contracts awarded under this section shall not be credited toward the 3-percent DVBE participation goal.)

All DV owners and managers of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

Mark Eckert Mark Eckert May 5, 2006
(Printed Name of DV Owner/Manager) (Signature of DV Owner/Manager) (Date Signed)

(Printed Name of DV Owner/Manager) (Signature of DV Owner/Manager) (Date Signed)

Firm/Principal for whom the DVBE is acting as a broker or agent: _____
(If more than one firm, list on extra sheets.) (Print or Type Name) 95028

Firm/Principal Phone: (916) 960-0116 Address: 5010 Sunrise Blvd Suite A4, Fair Oaks, CA

SECTION 3

APPLIES TO ALL DVBEs THAT RENT EQUIPMENT AND DECLARE THE DVBE IS NOT A BROKER.

- ☐ Pursuant to Military and Veterans Code Section 999.2 (c), (d) and (g), I am (we are) the DV(s) with at least 51% ownership of the DVBE, or a DV manager(s) of the DVBE. The DVBE maintains certification requirements in accordance with Military and Veterans Code Section 999 et. seq.
- ☐ The undersigned owner(s) own(s) at least 51% of the quantity and value of each piece of equipment that will be rented for use in the contract identified above. I (we), the DV owners of the equipment, have submitted to the administering agency my (our) personal federal tax return(s) at time of certification and annually thereafter as defined in Military and Veterans Code 999.2, subsections (c) and (g). Failure by the disabled veteran equipment owner(s) to submit their personal federal tax return(s) to the administering agency as defined in Military and Veterans Code 999.2, subsections (c) and (g), will result in the DVBE being deemed an equipment broker.

Disabled Veteran Owner(s) of the DVBE (attach additional pages with signature blocks for each person to sign):

(Printed Name) (Signature) (Date Signed)

(Address of Owner) (Telephone Number of Owner) (Tax Identification Number of Owner)

Disabled Veteran Manager(s) of the DVBE (attach additional pages with sufficient signature blocks for each person to sign):

(Printed Name of DV Manager) (Signature of DV Manager) (Date Signed)

CONTRACT NO. 1S-06-75-55
(EXTRACTS)

ATTACHMENT 2

Agreement # 1S-06-75-55

5.3.1b E-Services/Electronic Order Entry System (Scored)

Office Depot has been a leader in E-commerce solutions since the mid-1990s. Within the past 24 months, we have continued to provide access to e-commerce ordering both through our own website and in conjunction with other procurement systems such as Ariba, Epylon, and Intramalls.

For the State of California, we have chosen to partner with Epylon to provide a custom solution. The Solution, which includes an Epylon interface with punch-out to the Office Depot electronic catalog, will allow state users to place orders with one of the many members of the DVBE/SB consortium. Consortium members will accept on-line orders through the Epylon system, which will use the system to electronically purchase requested goods wholesale from Office Depot and correctly direct delivery to ordering customers.

Among the many benefits of The Solution are:

- Ability to monitor order status online – e.g. if order is in process, has been fulfilled, is backordered, etc.
- Line item pricing loaded into the system for both core and non-core items
- All agreed-upon line items will be maintained in the electronic catalog and will not be removed without permission from the state
- The Solution will be continuously operational
- When doing product searches, core items will be visibly flagged
- Ability to produce a unique PO number for each order
- Online account setup specific for California's needs
- Ability to track SB and DVBE purchasing on demand
- Ability to track Recycled items purchased
- Ability to tag Environmentally Preferred Products
- Ability to reprint invoice copies online
- Ability to reprint Proof of Delivery documents online
- Dynamic online catalog to meet State purchasing needs
- Future customization available to meet State's changing requirements (e.g.: developing a backend integration system with the State's procurement and/or finance system.)
- Multiple users will be able to access the site at any given time, and the system will be built to industry standards to concurrently handle at least five percent of any given universe of orders, now identified by the State as 11,600 persons

CONTRACT NO. 1S-06-75-55

(EXTRACTS)
Office DEPOT

ATTACHMENT 2

Agreement # 1S-06-75-55

Clarification to Final Proposal RFP DGS-55206

email

July 31, 2006

Ms. Mallie Stone
Contract Official
DGS/Procurement Division
707 Third Street, Second Floor
West Sacramento, CA 95605

Dear Ms. Stone:

Thank you for the opportunity to provide clarity to Office Depot's final proposal on DGS RFP-55206 to the State evaluation team as per section 2.4.1 of the RFP. I will first address your specific questions the State has raised and summarize in a descriptive narrative of how the solution specifically addresses the State's requirements.

1. With regards to questions relating to order placement, invoicing, the Consortium, Epylon and problem resolution:
 - a. Orders will be placed with Office Depot – orders will be accepted online, by phone, fax, mail or hand delivery. Invoicing will come from Office Depot Consortium referencing the Office Depot contract number with remittances to be made to a single, standardized lockbox address for the entire Office Depot Consortium. For all intents and purposes, to the State Accounts payable office, it will seem as if the invoices are coming from Office Depot itself although the function of generating the invoices will be done through the Epylon Solution by the consortium member handling the specific geography or agency. Again, this is a specific activity the consortium member performs on behalf of the agencies it serves, and will be seamless to the State as if it had been performed by Office Depot billing department. All invoices will be identical no matter which Consortium member generates the physical invoice.
 - b. Territories will be assigned based on geography just as if we were assigning Office Depot personnel to manage the accounts. In the Sacramento area, we will be assigning Consortium members by agency or department. Outside of the Sacramento area, each county will be assigned a Consortium member. Again, the departments and agencies do not have to worry about "who" their Consortium member is – all they have to do is call Office Depot's toll free customer service number. Of course, once they establish an account with Office Depot, they will be contacted by their Consortium representative just as they would normally be contacted by their account manager as a resource to go to for help beyond the scope of customer service. Those who choose to order online will have their Consortium representative's contact information visible once they login to the system. Those who choose to order by phone or fax can get their Consortium member contact through customer service. We can publish the Consortium members and their assigned geography in the State's custom catalog if that is desired. We do ask that all State agencies go through customer service or online setup to establish an account rather than through the Consortium member. Consortium members will be notified immediately upon account setup to solidify the relationship between the State customer and the Office Depot Consortium.

CONTRACT NO. 1S-06-75-55
(EXTRACTS)

ATTACHMENT 2

Agreement # 1S-06-75-55

- c. The Epylon Solution is the glue which makes the Office Depot Small Business and DVBE Consortium seamless to the State user. All orders whether phoned in, faxed in or placed online will actually be entered into the Epylon Solution because it integrates many of the backend processes that allow all members of the Consortium to work together and present a united face as "Office Depot" to the State's customers. For purposes of this narrative, we will describe how the Solution works when an individual from a State Agency is placing an order online; faxed and phone orders work exactly the same except the customer service team is doing the online order entry.

The individual placing the order will go to a designated California State Specific URL. Upon going to the URL, the State Customer will see a banner that proclaims: "The California Small Business and DVBE Consortium managed by Office Depot." The login page will have general information about the consortium, and a clickable link to request an account. For purposes of this narrative, we shall assume that an account has already been established.

The California State customer then enters their login name and password and then moves from the general page into a secure ordering interface. The customer is greeted by Name and Department, for example: "Welcome, Sally Jones of CalTrans." On the login page, the customer is also given bulletin board information which includes the Customer Service number as well as contact information for the specific Office Depot Consortium member that is servicing their account. (Much as they would normally be welcomed with information about the Customer Service number and how to reach their specific Office Depot account manager.)

The California State customer then goes about placing their order. The Epylon solution interfaces directly with the Office Depot mainframe and so all the product numbers and descriptions are exactly as if they were ordering on Office Depot's system. In fact, they are ordering on Office Depot's system - the Epylon Solution "punches out" by cxml directly to Office Depot. The customer completes the order and receives an email confirmation.

The Epylon Solution then goes to work seamlessly and behind the scenes. When the California State customer places an order, Epylon simultaneously generated two transmittals. The first transmittal is an email to the Consortium member stating that Sally Jones of CalTrans has just placed order number xxxxxx with the Office Depot Consortium. The Consortium member can check the status of the order, and when it has shipped to the customer, generated the invoice. In addition, if there is a "problem" with the order which requires customer contact (such as a delayed delivery or discontinued product), the Consortium member contacts the customer. If there are no issues requiring customer contact, the Consortium member simply generates an Office Depot Consortium invoice from the Epylon Solution and sends it to the address indicated by the State customer. Again, all invoices will be generated by the Office Depot Consortium member servicing the agency and will be transparent to the State's accounting offices.

Simultaneous with the email order transmission to the Office Depot consortium member, a cxml order is generated from the Consortium member to Office Depot on behalf of the State customer. Office Depot then picks, packages and delivers the product directly to the State customer the next business day. Invoices are generated from Office Depot to the Consortium member for the wholesale value of the merchandise, and Office Depot receives payment from the Consortium member when the State pays the Consortium. How this works is discussed more fully in response to the State's question #2.

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ATTACHMENT 2

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The Epylon Solution will be just as simple for the State's Customer's to use as the Office Depot website. In fact, it should be easier to use since it is being customized and tailored specific to the State of California's requirements. Use of the Epylon Solution will even allow State personnel to generate their own reports at any time in addition to the monthly reports generated by Office Depot. We would be pleased to organize a demonstration of the Epylon Solution to the State during the evaluation process.

- d. State Agencies will be calling Office Depot for concerns. Consortium members are part of the Office Depot team and may assist in customer site visits, problem resolution, etc. but the contract is managed by Office Depot, and Office Depot takes full responsibility for fulfillment of the terms and conditions of the contract. When Consortium members interact with State customers, they will be doing so on behalf of Office Depot and the Consortium. Office Depot, as required by the RFP, will have a full time State Contract manager to oversee the program and will work with the Consortium members and the State to resolve any and all issues.
2. All payments from the State will be made to the Office Depot Consortium lockbox – in effect, a bank PO Box that is specific for State of California remittances to Office Depot and the Consortium. All state invoices will direct payment to be made to this same lockbox PO address, regardless of which Consortium member serviced the order. When remittance is received at the lockbox, the bank which is the lockbox trustee first pays the Consortium member who generated the invoice, and then the bank reconciles the Consortium members invoice with Office Depot. In other words, the lockbox is the mechanism that enables the State to have one point of reference and payment for all Office Depot Consortium invoices, and yet allows each consortium member to receive their portion of the remittances generated instantly. The lockbox is a "behind the scenes" apparatus that manages the finances of the Consortium ensuring all members receive payment in a timely manner, while the State has a single payment address for all Consortium addresses.
3. Here is a bit of clarity as to the members that will be assigned to the State of California contract team should the award be made to Office Depot.
 - Office Depot State Contract Manager – will work closely with State Contract Manager(s) and State Procurement officials in the management of this contract in fulfillment of its terms and conditions. The Office Depot Contract Manager will also manage members of the Small Business and DVBE Consortium.
 - Small Business and DVBE Consortium – 9 independent office products companies which have their own personnel resources to dedicate to the State, which will be scalable with growth. (These 9 Consortium member companies and their sales resources replace the 8-12 sales personnel who would ordinarily be hired to support a \$25 million contract as mentioned in response 5.10.1)
 - State of California Customer Service Team – Dedicated team of 6 customer service representatives answering the phone and fax lines, and doing the new account setup. If needed, additional personnel can be added based upon the State's volume; moreover, our experience shows that 6 customer service reps solely dedicated to the State of California will handle \$25 million volume and startup.
 - Office Depot State Program Manager – liaison with the Department of General Services Contracting and Procurement
 - Office Depot Implementation Managers – 2 Office Depot implementation managers that specialize in government contracts to oversee the entire implementation (as per 5.13a, the entire implementation team may be scalable up to 24 individuals including personnel from Epylon, Office Depot and the Consortium members)
 - Office Depot Regional Sales Director – Sacramento (Contract Manager reports to this individual)
 - Office Depot Public Sector Sales Director (Program Manager reports to this individual)

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ATTACHMENT 2

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4. Please see Attachment 1 for complete descriptions on the items needing clarification. All items listed as "supplemental" will be exactly the item number and packaging requested by the State. Details can be found on the attachment. Thank you for requesting the clarification.

In Summary, Office Depot has provided the State with an inclusive concept working with Small Business and Disabled Veterans Business Enterprises to provide the benefits of Strategic Sourcing while meeting goals important to growth and development of jobs and enterprise within the State environment. One of Office Depot's 6 core values is "inclusion" and we have embraced the opportunity to work as partners and mentors to California Small Business and DVBE companies that are already engaged and wanting to expand their enterprises in the office products field.

As Bonnie Cerleski of The Primary Source told us, "I'm excited about the opportunity to partner and learn from Office Depot. I'm already doing a lot of business with the State but I need a way to leverage my business and grow. The Consortium helps me do that."

Cliff Waldeck of Waldeck's in the San Francisco Bay Area told us that our Consortium concept is very similar to the Grainger Distributor Alliance program. "This is great," Cliff told us, "because now I'll have two product lines to sell the State. Your programs are very similar, and the Epylon Solution will make it much easier to work with Office Depot."

Bonnie, Cliff and our 7 other Consortium members will benefit not only from sales volume brought about by State sales dollars, but from a mentoring relationship with Office Depot with the customers they serve already. One of the technical challenges facing a small business is developing a robust eCommerce website. Because of their association with the Office Depot & the Epylon Solution, our Consortium members will have access to the Epylon Solution customized for use in their everyday business with their own customers – several members of the Consortium are already planning on how to market the more than 3,500 recycled and environmentally preferable products that Office Depot will make available to Consortium members to resell to their own customer base – truly a winning solution for all.

From our first meeting with Marnell Voss and her team back in January of this year, we have understood that the State wants to leverage its buying power and consolidate its buying with strategic partners, and is asking those partners to meet and possibly exceed the DVBE requirements of 3% and the Small Business goal of 25%. We have understood the goal, and endeavored to make it a reality. With the Small Business and DVBE Consortium managed by Office Depot, almost all of our business will be subcontracted through the Consortium. (The only exception being emergency orders made directly at one of our 178 retail stores in the State of California.) It was a creative challenge to come up with the concept, and the concept was first gestated by conversations with Gary Hoffman of Hoffman Technologies, who is already a Tier One partner with Office Depot in the Federal arena and with Cliff Waldeck who has a marketing arrangement with us in San Francisco. We sought to generate a solution that not only met the technical requirements for Small Business and DVBE but one that would hail the benefits of the challenge and bring forth a productive and creative business model.

The Small Business and DVBE Consortium managed by Office Depot is a solution upon which the State of California can rely. Small Business already comprises 98% of the businesses in our State and generated more than half of the jobs. Small business is the main customer of Office Depot's 178 retail stores in California, and those retail sales generated \$68 million in revenues for the State of California via sales tax in 2005. With our Consortium, we meet not only the letter – but the spirit – of encouraging partnership in a win-win-win solution for the State, Office Depot and the Consortium members. We believe that in sharing the prosperity of a State contract with a wide diversity of SB and DVBE Consortium members, we will have a model that encourages State Agencies to participate

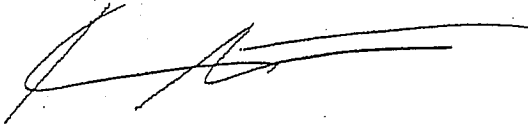
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in the statewide contract. With a significant percentage of office supply spend dollars funneling through the state contract, Californians will benefit from lower prices, as well as allowing DGS to optimize its financial management. Californians will also benefit from increased job creation and economic development as Small Business and DVBE get a jump start in their growth from State spending. We're proud to offer the Consortium concept, and do hope that these explanations clarify how Office Depot is meeting and exceeding the State's requirements for DGS-55206. Thank you once again for the opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Streletzky', with a long horizontal stroke extending to the right.

Kathryn Streletzky
Program Manager



MEMORANDUM

Date: August 27, 2008

To: Rick Gillam, Chief
Office of Audit Services
Department of General Services

From: Jim Butler, Deputy Director
Procurement Division
Department of General Services

Subject: Office Depot Audit Report

Rick, let me thank you for the opportunity to respond to your audit of Office Depot Inc.'s performance on certain portions of The State of California's contract for office products.

The Procurement Division (PD) has reviewed the findings, recommendations and conclusions in the report. The PD remains firmly committed to effectively and efficiently overseeing the State's procurement program. As part of its continuing efforts to improve this process, the PD will take appropriate actions to address the issues presented in the report.

When the issue of sales of third category priced items was brought to PD's attention during the audit it immediately began discussions with Office Depot to promptly resolve that issue. Specifically, discussions were held with Office Depot to ensure that the items were blocked from future purchase and to pursue the recovery of an additional discount for items included in the third category of pricing. These discussions resulted in the blockage of all non-contract items from purchase under the Contract. On August 5, 2008, a broadcast was made to State purchasing officials notifying them of the electronic blocking of non-contract items from purchase under the Contract.

Regarding Recommendation Number 2, the recovery of an additional discount for third category product sales, the PD is in the final stages of discussion with Office Depot on this issue and foresees that the issue will be satisfactorily resolved.

The PD will also work with Office Depot to ensure that the other issues noted in the report are fully addressed. Office Depot has indicated its willingness to refund the amounts suggested in Recommendation Numbers 4, 5, and 7.

Also as suggested in the audit report, PD is obtaining a written commitment from Office Depot that appropriate actions will be taken to improve their internal control systems to ensure Contract compliance. It should be noted that the actions above have already been taken to block non-contract items from purchase fully address Recommendation Numbers 1, 3 and 6.

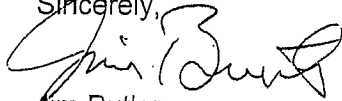
Also, as stated in the report the PD is currently taking action to improve its acquisition and contract management functions. This includes the development of new commercially useful

function and contract administration policies and procedures to ensure that those activities are effectively performed.

The PD will keep the Office of Audit Services (OAS) fully informed of the actions taken to address its recommendations.

Finally, I wish to acknowledge the professional and complete work performed by your office on this audit over the past five months. Please extend our thanks to your dedicated team.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Butler", written over the word "Sincerely,".

Jim Butler
Deputy Director
Procurement Division
Department of General Services

OFFICE DEPOT, INC.
CONTRACT COMPLIANCE AUDIT

EVALUATION OF PD'S RESPONSE

We have reviewed the response by the Procurement Division (PD) to our draft report. The response indicates that appropriate actions are being taken to address our recommendations regarding Office Depot's compliance with the pricing provisions of the Contract. We also appreciate the efforts taken or being taken by PD's personnel to improve its acquisition and contract management functions. The promptness of these efforts continues to disclose their significant commitment to improving operating policies and procedures.